BULLETIN OF THE

# TAYLOR SOCIETY

AN INTERNATIONAL SOCIETY TO PROMOTE THE SCIENCE AND THE ART OF ADMINISTRATION AND OF MANAGEMENT

*This Issue Contains:*


Applied Scientific Management—Chapter Five

*December Meeting Papers on:*

Sales Costs

Purchasing Ability of the American Consumer Market

Economic Security

and

A Study of the Wage-Price Relationship in an Economy


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JUNE, 1933 VOL. XVIII, NO. 3

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The objects of this Society are, through research, discussion, publication and other appropriate means:

1. To secure—for the common benefit of the community, the worker, the manager and the employer—understanding and intelligent direction of the principles of administration and management which govern organized effort for accomplishing industrial and other social purposes.

2. To secure the gradual elimination of unnecessary effort and of unduly burdensome toil in the accomplishment of the work of the world.

3. To promote the scientific study and teaching of the principles governing organized effort, and of the mechanisms of their adaptations and application under varying and changing conditions.

4. To promote general recognition of the fact that the evaluation and application of these principles and mechanisms are the mutual concern of the community, the worker, the manager and the employer.

5. To inspire in labor, manager and employer a constant adherence to the highest ethical conception of their individual and collective responsibility.

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Reserve

**December 6, 7 and 8, 1933**

for the

**Annual Meeting of the Taylor Society**

*see back cover for tentative program*

## Comment

WE ARE not merely exploring new economic territory; we are occupying it. Those industrialists who assume that after a year or two of acceptance of new conditions and ways of doing things we shall gently drop back to the accustomed conditions and practices of the past face disillusionment. The essence of the present dominant point of view and the framework of new institutions now being created are likely to be permanent. Among other changes now developing is that in the capital-labor relationship. We are using the word capital in a broad sense which includes the business enterprise as well as the specialized provision of capital funds. It is not unlikely that we are on the way to a complete reversal of the capital-labor relationship.

IN THE past capital has been able to claim a specified income secured by mortgages on productive property, and ownership has been able to establish the presumption of a "fair return" for organizing and conducting a business. If at any moment an owner has been able to realize an exceptional return he has established the presumptive right to try to make it permanent by capitalizing the differential—creating a new property forever entitled to a return. Although this has not been the case with every business—especially the small business, for the corner grocery or drug store must still face many risks and earn its way by economic service—the presumption has become strong in the field of corporate organizations and is fortified by corporation law. This has led to the general point of view that the variable expenses in business must be materials and labor—especially labor, for it accounts for a large portion of the expense of materials—and that above a subsistence wage labor must be satisfied with what is available after the claims of capital and ownership have been satisfied. Let us not deceive ourselves by the fact that wage rates are not changed readily; wage income is changed readily by variations in employment.

STUDENTS have raised the question whether this could endure, but at a time and under conditions which made their questioning seem academic. Ten years ago one of our ablest economists, John M. Clark, made an important study of overhead costs in which he says: "The wage system makes labor a direct and variable cost and the system whereby corporations own their own fixed capital makes that an overhead cost. There are reasons for this system; natural reasons and historical reasons; but it would be quite possible to draw contracts in such a way that labor would be the overhead expense to the employer and machinery the direct and variable expense." Now our proposition for consideration is that, earlier than any one would have expected ten years ago, we are definitely on the way to making the cost of labor a fixed overhead—relatively, progressively, and not statically—and asking capital and ownership to be satisfied with the variable portion of social income. The natural and historical reasons for the earlier relationship, to which Professor Clark referred, are disappearing.

Gradually within the past half century and more perceptibly within the past decade the balance of forces has been shifting. For instance, for the first hundred years of our industrial development we were in a deficit economy. We were a group of moneyless settlers opening a territory of rich natural resources. We had labor power in addition to the resources, but capital was wanting; and capital was necessary to utilize the new technology of the industrial revolution which the mother coun-

(Continued on page fifty-two)

# Purchasing Ability of the American Consumer Market

## Reflections on the Jordan-Doane Data Published in the October 1932 Issue

*By* **ROBERT R. DOANE**
**Statistician, New York**

THE future is always the most interesting, the past may be made the most informative, whereas the present ever remains the most obscure.

It was something after the manner of the above reasoning that started some of us on the long and perplexing trail of attempting to discover how the American people lived, derived their income, and in what manner and form—either by self-determination or by force—they elected its disposal.

The complete study of the disposal and of the germination of income has involved a more or less comprehensive measurement over a period of years of the total annual spending. Such a study, if it is to become useful, must be broken into several major parts; such as total annual agricultural production expenditures, non-agricultural producer expenditures, governmental expenditures, institutional expenditures, distribution expenditures, foreign spending within the given economy both for goods and services, and consumer expenditures.

It is with some aspects of this latter subject—that far off divine event when goods and services finally pass into the hands of the ultimate consumer—that I have been asked to discuss tonight.

It should be recalled at the outset that the results of any such study are to be looked upon as chiefly barometric, whereas the various totals obtained can lay but little claim to strict exactness. It is with the proportions that we are primarily concerned.

There has never been a complete census of the annual expenditures of the American people. There has never been a complete estimate, covering a period of years, of these expenditures. The annual consumption of physical goods by an economy is capable of more or less accurate, though indirect, measurement through our knowledge of the production and pricing of these goods; but the total expenditures of a people as consumers, which includes services and many forms of intangible property, has been in its nature a difficult subject to measure.

If such information could be obtained by means of a questionnaire or schedule to be filled in by each informant there is substantial evidence that these actual returns would contain many errors. It is thus apparent that the average individual is as surprisingly ignorant of both the sum total and distribution of his annual spending as is the American business man for whom it would profit most to know.

Thus at the outset there appears an abundance of barriers to exact measurement, which less than a decade ago would have successfully defied all attempts save only that of pure guessing. Even at this late date there is considerable perfection yet to be made in our growing annual crop of statistics. However inadequate, or whatever the extent of weaknesses in the now available data, it is only because of the practical value of the roughest kind of computation that the problem has been attacked.

It should also be clearly understood that these estimates deal exclusively with the total annual expenditures of individuals as consumers residing within the boundaries of the Continental United States, and that such expenditures are subject to considerable augmentation through the agencies of "trade-in" and of the various forms of credit external to their class and not supplied by them out of their current income.

For the purpose of this study consumer expenditures has been defined as the total expenditures in current monetary terms by all individuals, or for them, for all classes of goods and services consumed or utilized annually in the satisfaction of their needs, other than those expenditures made for commercial or business purposes. "Imputed consumption" has been excluded in order that the results might be comparable with estimates of the total current monetary income of individuals. Such a study has represented an attempt to ascertain, with a minimum degree of error, the extent of such consumer expenditures and commitments, of their apportionment among the various items of the conventional consumer budget, and of their division among the various income classes.

Of the total items included in this survey there can be little lack of agreement although the method of their classification may be subject to varied opinion. Thus the more than 11,000 items have been organized under some 968 separate categories and finally brought together under twelve major headings. It should possibly also be explained that certain forms of consumer expenditure which would indisputably be classified by the individual under one head would not essentially appear under a similar heading in this study. An illustration in point would be that of *gifts*, here excluded, as all such outlays would find their way into our estimates via the various classes of goods consumed or purchased during each period. The purpose or final destination of such expenditures would clearly not form a part of this study.

Likewise the repayment of debt represents to the consumer at the time of payment an expenditure out of current income or out of savings, yet to this study the period during which the debt was incurred, representing obviously the result of some current need for goods or services, would find its way into the expenditures of that period and would thus appear under its proper heading in the annual total. Should such a transaction as debt repayment be added, even if we knew the time and manner of payment, it would clearly involve duplication and could not, save only to the extent in which it involves additional expense in the form of interest charges, be included in this work.

Contrary to popular opinion there does exist a vast body of reliable information surrounding the field of consumption. It is, in many instances, scattered and fragmentary, although when collected and pieced together it may be made to disclose a surprisingly vivid picture of the annual results of our productive and consumptive activities. Against this body of factual material, standing as a guide, is the large number of budget studies that have been made by both the government and private agencies during the past two decades. A further supplementing check as to the approximate correctness of the amplitude of our total estimates as well as trend has been the comprehensive work of several outstanding authorities in the field of our national income.

As a matter of fact, although prior to this study little had been done in the actual statistical measurement of total consumption, so much has been accomplished by way of selective series, and so broad and adequate have been the innumerable studies surrounding this field as to supply the present study with quite definite limits of maximum and minimum error-

range probabilities. It thus became unlikely that errors of any great magnitude could develop which would not be subject to almost immediate detection.

The more significant finding of this study has been that of our rather consistent spending in excess of current income, not alone for the period 1919-1929 but as an inherent characteristic during the past half-century. Another, and perhaps more important disclosure, has been that our rate of savings has exceeded our rate of investment throughout the entire period. The full effect of this latter phenomenon upon the consumer market will shortly be published. The fact that we "saved" in excess of our need for "saving" seems to contradict the prevailing notion that we "squandered" our way into this current depression—but rather indicates that we "saved" our way into bad times, and must now "spend" our way out. The fact that we found the American consumer market to be dominantly that of the small income recipient was not surprising, although much of our public and private business policy would indicate that such an obvious fact is of little or no importance.

From the standpoint of complete scientific detachment it would not ordinarily fall within my province to make any comment as to the social and economic significance of the findings of this particular study. However, the cost of producing and maintaining a population at a reasonable degree of efficiency must concern us all, as this cost can only be paid out of the current national income. The uses, therefore, to which this income is put becomes inevitably of great importance. As a matter of fact, in an advanced economy a careful and accurate knowledge of this disposal of income becomes almost an indispensable factor if outright capital dissipation is to be avoided. And this is even more vitally true today, in a period of materially reduced income, than ever before. A surplus economy that obviously has not the means for intelligently dealing with its surplus is little more in reality than an economy still operating under the principle of scarcity.

The argument has been raised in some conservative quarters that we have vastly over-estimated the extent and the effect of unemployment. This approach further emphasizes the fact that we have with us always a vast army of migratory labor and of unemployable labor, and that many households contain sons and growing daughters who seek an independent means of income in spite of the fact that the head of the family earns sufficient income to maintain a comfortable living for all.

Difficult as this line of reasoning may be to follow, we may profitably trace the ratio of those gainfully occupied to our total population over a period of years and compare this ratio with that of total income in terms of dollars of constant purchasing power.

If, as has been suggested, we are thus permanently to lower this ratio from an average of 38 per cent of our total population as gainfully employed from 1909 to 1929 (a period of twenty years) to that of barely the 25 per cent which now prevails, we may then expect a correspondingly lower national income which can only serve to accelerate our swiftly falling standards of living and retard any expected return to the 1926-1929 levels for at least another twenty years.

If we trace the number of our total gainfully occupied back over a period of years we find approximately the same number of income recipients in 1909, some twenty-three years ago, as are to be found in America today—namely, thirty-four million in both periods.

Oddly enough, if we compare the total national monetary income, deflated series, we also find an almost exact correspondence of our 1932 total income with the total income of 1909 (approximately thirty billion). Yet over this same period of time our population has increased some thirty-six million. And we are today living or trying to live on the same income, with the same numbers employed, as almost a quarter of a century ago.

The outstanding and important factor to consider in this connection is that our present general level of prices, for the major portion of our needs, low as they are, are still some 40 per cent above the prevailing price level of 1909. Thus if we are to continue to pull ourselves up via the automatic deflation route to the "income comforts" of almost twenty-five years ago—which knew little of motor cars, nothing of electrical household devices, radio and airplanes—we can complacently further expect a continuation of price decline of fully one-half from present levels. And even if this could be accomplished, due to our additional thirty-six million population since that date, we would still be forced to live on a standard fully one-third below that of the post-war period.

Absurd and unbelievable as all of this must sound, yet it represents a fairly true picture of our situation today, especially as long as we remain satisfied with our mania for deflation. The only way we have so far been able to guide ourselves through our troubled economic sea has been via the rocky bankruptcy route. At least this has, as always, been the easiest method without involving our tampering with tradition.

As we now approach the year-end we will hear much about the necessity of even further capital write-offs, debt adjustments, overhead reduction and so on. As a comforting social and business stimulant this method will in all probability work somewhat unsatisfactorily, both to the rich and the poor, the producer, distributor and consumer alike.

There has been further criticism from conservative and powerful banking sources to the effect that the country cannot be in such a serious plight or more than one-fourth of our population would now be starving. This argument fails to take into account the fact that we are not only consuming some 500,000 tons less food monthly than one year ago, but that the rapid growth of the "self-help" movement has proven effective throughout the entire country. In this movement we find a process of both direct barter and the free use and circulation of large amounts of scrip of problematical monetary yet of considerable social value. All of this has served to mitigate the enormous distress of the non-income-receiving consumer while the use of these various forms of scrip has in no inconsiderable measure made up for our present deficiency of means of payment.

The nearest estimate, based upon studies of various welfare agencies, indicates the limited circulation within the country of approximately one-third of a billion dollars of such self-created media of exchange, or almost as much of this kind of token money as there are total subsidiary silver or United States notes outstanding.

It presents a pathetic picture to see large numbers of our people, citizens of the great democracy, taking over into their own hands that which has always been considered a proper function of government. Government, according to an ancient thinker, comes into existence in order that men may live together, and continues in existence in order that men *may live well*.

When business fails to function and after continued efforts cannot pick itself up under its own motive power, it is then time to look to some other agency. In casting about for such an instrumentality we find the original conception of government to have been an organization created by men and clothed with the necessary compulsory powers for meeting the collec-

tive wants of the people. ". . . its essential value can only be realized in any practical form through the government's economic activity as required for this purpose. And it is only from such a point of view that anyone can see clearly the necessity for government. A necessity which actually becomes the starting point of all financial science, and so becomes directly connected with the whole of our economic activities." Thus says Gustave Cassel, perhaps the most astute mind on capital now living.

It seems to me that no more magnificent opportunity for economic and social achievement ever confronted a government or a people than that immediately facing the people of the United States today. At this period of our affairs when our government's financial stake in our nation's banking and business affairs is so great that disaster in the field of business enterprise could only mean disaster both to our government and to its people, it becomes an imperative duty, transcending all other issues, for our government to rise to its responsibility in meeting, or in attempting to meet, the collective needs of an impoverished community that it was originally organized to serve.

The problem is one of security. Security for the government and for its allies—the American people and American enterprise. In solving such a problem the government must meet not only its own financial requirements but those of its allies as well—promptly and without stint.

Artificial stimulation to enterprise is now necessary unless we desire to suffer through a long and drawn out period of time. Men, money and materials must be put back to work. Purchasing ability must be made available to the consuming public. The devotion of 125 million people toward such a policy for the defeat of depression and the conquest of business stagnation would prove a revelation. Not only this, but because we are the world's chief creditor nation, the entire world awaits such action.

There is a means whereby this can be done. Payment by credit, together with a gigantic shift or exchange of credit, a mere bookkeeping transaction of actual profit to the government, can be undertaken within an incredibly short period of time. All of the high priests of finance are aware of this. The clue may be found in the available reports on the Hearings before the Joint Commission of Agricultural Inquiry of 1921. The means, method and temper are all present. Can Democracy afford to miss this—its possible last chance? *Paper presented at a meeting of the Taylor Society, New York, December 9, 1932. The substance of this paper will appear in Mr. Doane's "The Measurement of American Wealth" about to come from the press of Harper and Brothers.*

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(*Comment continued from page forty-nine*)

try made available just in time for us to apply it in the huge opportunity before us. So we bid for capital by giving it a preferred status and embodied this in our law as well as our psychology.

But recently we have entered into a surplus economy. Technology has become such that we are able, if we will, to satisfy our basic needs and many caprice needs, and easily to provide the necessary capital as well as managing ability and other labor. Certain studies published last year indicated that in 1929 62 per cent of American savings was made available by the income classes earning $10,000 per year or less, and 45 per cent by the income classes earning $5,000 or less. We are no longer dependent on the payment of a premium to any special class to save for us; capital is no longer the result of conscious abstinence; if the capital spontaneously made available by the savings of small-income receivers were put under a collective management we should have therein such a proportion of the capital required for a sane conservative building up and maintenance of production facilities that it would be unnecessary to pay the price of a consistent and invariable return for it. Our willingness to continue the earlier contractual arrangements is therefore disappearing.

So also is our ability to do so disappearing. We have built up a contractual system for procuring capital which causes the debts of our economy to increase more rapidly than our productivity. This is one of the substantial truths presented in the arguments of the Technocrats. In the earlier period this geometric-like increase of debt structure did not matter much, for we were appropriating natural resources and transferring social capital to individual account, and it is very easy to face debt if we can appropriate and do not have to earn the means for paying it. But today, when social capital has all been transferred to individual account, each debtor has to earn the means of paying his debts. Under these circumstances we are naturally in revolt against those elements of a system which pile up debts at a faster rate than our real income is increased.

This mental attitude is intensified by the fact that we have been educated to a higher standard of living, and whatever the sacrifice we may perhaps consciously be making at the present moment to get industry started again, we as a people are going to demand an even higher standard of living. It is probable that in our future business mythology we shall give twentieth century advertising the status of a nemesis. This device for developing mass sales has convinced us that we want the equivalent of an apple a day, a visit to our dentist twice a year, communication by telephone instead of mail, two cars in every garage, and to see America first and then the world. To the extent that productive technology will permit, we shall insist on these things, and obsolete customs of contract that stand in the way will be modified by consent or roughly swept aside.

Those who believe they benefit by obsolete contractual custom would resist a higher general standard of living at their expense were it not for a dilemma of which they are becoming more aware. A higher general standard of living would be at their cost through a redistribution of social income; but what they have established as their wealth would lose its value if mass purchasing is not increased, and mass purchasing cannot be increased without a new distribution of the social income

(*Comment continued on page fifty-five*)

# Sales Costs

## Their Analysis by Items, Orders and Customers

*By* ELDON WITTWER, PH.D.
**Sales Analyst and Marketing Engineer, Boston**

NOTWITHSTANDING the many altruistic motives, the chief aim of a commercial enterprise is to make a profit. Success or failure is measured in terms of profit expressed in dollars and cents. Therefore any change in policy, any increase or decrease in operating and sales expense or sales pressure should be made with this end in view. The curve of net profits should run at least approximately parallel to that of sales. When net profits fail to keep pace with sales, it is an indication that something is wrong and the case should be diagnosed to locate the trouble and find remedies.

### Results of Analysis for a Wholesale Hardware Concern

A few years ago I was given the job of making a detailed analysis of a wholesale hardware concern to discover, if possible, the reason for their red ink balance. Since the function of merchandising is to connect useful commodities with customers desiring them, it was apparent that such an analysis should be centered around *commodities* and *customers*. A detailed cost analysis was made of each of the leading lines of merchandise and of every customer on the wholesaler's books. This analysis revealed some striking facts which were very helpful in adjusting policies to meet present conditions. Five out of twelve lines were found to be unprofitable. It was discovered that over 90 per cent of the sales came from less than 50 per cent of the items carried in stock. Sixty-five per cent of the orders were found to be unprofitable. These were small orders which constituted only 6 per cent of the sales. Out of two thousand customers 925 were found to be unprofitable; these were the small customers who were buying hand-to-mouth fashion and who accounted for a large part of the small unprofitable orders. Salesmen were spending approximately 30 per cent of their time soliciting business from small customers who year after year had been unprofitable.

### Results of Analysis for Manufacturers

The sales cost analyses I have made for manufacturers have revealed even more striking facts than those found in the wholesale field. For example, during the years of 1929-30 one manufacturer received only 4.5 per cent of his sales volume from 72 per cent of his customers. When costs were analyzed and allocated to individual customers it was discovered that this 4.5 per cent of sales volume required 25 per cent of the total distribution expense.

In another concern 85 per cent of the customers gave only 6.4 per cent of the total sales but required 25.6 per cent of the distribution expense. Other concerns analyzed gave very similar results. These facts lead me to believe that this condition exists quite generally among both wholesalers and manufacturers in spite of the almost universal cry that *"our* particular business is *different."*

Losses from soliciting and servicing small accounts amount to thousands of dollars each year, yet many concerns continue to heap this extra burden upon themselves. In doing so they are worse than the man who tortured himself because it felt so good when he quit. The chief difference is that many concerns never have the delightful experience of knowing how it feels to quit. Such actions by a business organization do more credit to their respect for old customs than to their ability to recognize new facts and adapt their policies to meet present conditions.

No doubt one of the chief reasons for such slow progress along lines of selective selling and the elimination of small unprofitable accounts, is the lack of definite cost and market information. Sales cost accounting is comparatively new. Many concerns are installing some system of sales cost accounting, but comparatively few have sufficient information available to enable sales executives to follow a constructive policy of selective selling. Executives have not known the minimum size of order which their organizations could handle with a profit. They have not known except perhaps in a very general way which of their accounts were profitable and which were unprofitable, or which territories were profitable and which were unprofitable. Because of the lack of definite information, they have failed to realize the extent of their losses from soliciting accounts and covering territories which do not have the potentials for sufficient volume to make them profitable.

### A Score Card for Allocating Costs

In each concern for which I have made a cost analysis, I have worked up a "score card" or statistical yard stick for measuring the profitableness or unprofitableness of an order, a customer or a line of merchandise. I believe this score card can be adjusted to fit any wholesale or manufacturing business. The principle is a very simple one. The following is the explanation:

Make a careful and detailed analysis of all sales and cost records kept by the organization. Make a detailed survey of work being performed and of records kept in sales offices, stock rooms and shipping rooms. Organization charts are helpful in making this survey. Time studies should be made and standards of performance set up where routine jobs are performed. Write up a detailed outline of work performed, how it is accomplished and why.

This type of survey is particularly valuable for two purposes. First, it supplies the basic information for the allocation of sales costs. Second, it frequently reveals the fact that duplicate or unused records are being kept or that circuitous methods are being used. Such information often results in savings amounting to thousands of dollars each year in office and shipping expense.

By such an analysis it has been found that some office work and expense increase or decrease in proportion to the number of orders received from customers regardless of their size in dollar volume. All such expenses are grouped under the heading "order costs." A large part of the order department expenses fall in this class; also a part of the postage and telegraph expense.

A considerable part of the work and expense in the office and shipping rooms increase or decrease in proportion to the number of invoices or shipments made to customers regardless

of the size of the shipment. All such costs are termed "invoice costs." The cost for billing, filing, sales statistics, accounts-receivable records, etc., fall in this class of expense.

Other expenses increase in proportion to the number of items or lines on the invoice. These are called "item costs." A part of the expense of the cost department, stock records and shipping room are examples of this type of costs.

All sales, administrative, office and shipping expenses not included in either of the above classes are grouped under "financial costs" and allocated on the basis of dollar volume.

All direct selling expenses including salesmen's salaries, commissions, bonuses and traveling expenses are placed in a separate group called "call costs."

All distribution costs are thereby divided into five groups as follows: (1) Order costs; (2) invoice costs; (3) item costs; (4) financial costs, and (5) call costs. The total order costs are then divided by the total number of orders, the total invoice costs by the total number of invoices, the total item costs by the total number of items, the total financial costs by the total dollar volume of sales and the total call costs by the total number of calls. This gives the cost per order, per invoice, per item, per dollar volume and per call.

With this information available, it is a simple matter to determine the minimum size of order which can be handled at a profit. For example, one manufacturer found that his costs were as follows:

| | |
|---|---|
| Overhead and routine cost of handling the customer's order | $0.55 |
| Overhead and routine cost of handling the shipping order and invoice | 2.60 |
| Cost of handling each item or line on the invoice | .15 |
| Financial cost per dollar of volume | .08 |
| Total cost for a dollar order (assuming the order came in by mail and required no solicitation by salesman) | $3.38 |

With an average gross margin of 28 per cent, the loss on a one dollar order was $3.10. If a call had been made by a salesman to obtain the order, at $4.25 per call which was the average cost for this concern, the total cost would have been $7.63 or a loss of $7.35.

Now let us assume that a mail order was received for $20. The order, invoice and item cost would remain the same as before, but the financial cost would be $1.60 (or $.08 times twenty), making the total cost $4.90 or 24.5 per cent of the sale, thus leaving a profit of 3.5 per cent. It is therefore evident that the minimum order which this manufacturer could handle at a profit is somewhat less than $20 or approximately $17. When a salesman makes a call to take an order, the minimum profitable order is increased to about $35.

By the use of this score card it is a simple matter to determine the cost of filling an order of any size, for any number of items, shipped in any number of shipments. It also shows why large orders are more profitable than small ones and how much more profitable they are. For example; to apply the score card to a $500 order to be filled in two shipments and made up of ten items, the method would be as follows:

| | |
|---|---|
| Overhead and routine for handling order | $ 0.55 |
| Overhead and routine for handling two invoices at $2.60 per invoice | 5.20 |
| Handling cost, ten items at $0.15 | 1.50 |
| Financial cost ($0.08 per $1.00) for $500 | 40.00 |
| Cost of the salesman's call | 4.25 |
| Total cost | $51.50 |

The total cost is 10.3 per cent of the sale. The gross margin is 28 per cent, which leaves a profit of 17.7 per cent or $88.50 on the $500 order. This same manufacturer just broke even on a $35 order.

It should be clear from these figures that the average size of order received from a customer is a very important factor in determining whether or not the customer is profitable. To illustrate: We will take two customers with annual purchases of $1,000 each. One sends in one hundred orders averaging $10, the other ten orders averaging $100 each. Assume a salesman calls on each customer ten times during the year. Based on the score card given above, the total cost for the first customer is $452 while the total cost of taking care of the second customer is $161, or a difference of $291.

Small average orders usually come from small customers. In every analysis I have made the average size of order received from the group of large customers, who supply around 90 per cent of the total sales volume, are from seven to ten times greater than the average order received from the multitude of small customers, who supply the remaining 10 per cent of volume. However some large customers are buying on such a close, hand-to-mouth, basis that in spite of the large volume their business is very unprofitable. It is therefore necessary to analyze every account.

### Who Is Responsible?

Who is responsible for all of these small orders and unprofitable customers, and what can be done about them? Are these conditions which have been forced upon us; over which we have no power of control? Or are they of our own making and is the control in our own hands? Personally, I believe the latter is a true statement of the case.

I believe that sales executives and salesmen are very largely to blame. The great aim of many sales executives has been to obtain what they termed a "one-hundred per cent distribution" of their product. Salesmen were required to call on every potential customer regardless of how small his potential volume might be. In some cases the objective has been practically reached, but instead of finding a pot of gold at the end of their rainbow, they found only increasing costs and decreasing profits.

In general salesmen have spent far more time with small customers than their business warranted. For example, the salesmen of one manufacturer spent 41 per cent of their time with customers from whom they obtained only 4.3 per cent of their sales volume. In another concern, 40 per cent of the salesmen's time was given to customers supplying only 6.4 per cent of the sales.

If the salesman is awake to his possibilities, he can do much toward increasing the size of his average order, building up more profitable accounts, and avoiding a waste of time on small customers. Let us take a concrete example. A manufacturer had two salesmen covering the New England territory. Salesman "A" was given the north shore and the states of Maine, New Hampshire and Vermont. Salesman "B" was given the south shore and the states of Rhode Island and Connecticut. Accounts in metropolitan Boston and western Massachusetts were divided equally between the two salesmen. As near as could be determined, sales possibilities were about equal in the two territories. Both salesmen had been working their respective territories for several years. At the time the analysis was made, salesman "A" was soliciting 170 accounts but spending 75 per cent of his time with his sixty-five best customers. Salesman "B" was soliciting 245 accounts and spending only 50 per cent of his time with his sixty-five best

customers. "A's" sales were practically double those of "B's" and his average order was $105 compared to $30 for "B." The analysis showed salesman "A" to be worth approximately $25,000 per year more to his company than was salesman "B."

Experience is teaching that the *kind* of customers is more important than the number. The idea of selective distribution is receiving more attention and being more generally recognized as an important factor in reducing distribution costs. However, it must not be accepted as a panacea for all the evils of distribution. Its adoption calls for caution and for a definitely worked out plan.

**Steps in Developing a Plan for Selective Distribution**

The chief steps in the development and adoption of a plan for selective distribution may be listed as follows:

1. Analyze sales and selling costs by commodities, items, orders, customers and territories. Determine the minimum size of order that can be filled at a profit and the smallest account which can be profitably carried.

2. Prepare a list of customers representing the maximum volume of business and the minimum number of accounts. Include in this list all potentially large customers not being sold at the present time.

3. Prepare a second list including all customers found to be worth soliciting but not appearing on list one.

4. Make contracts or other special arrangements such as discounts, commissions, terms, exclusive territories, agency franchise, etc., which will result in mutual benefits and insure good-will and special attention to the particular products in question.

5. Develop a staff of salesmen specially trained and prepared to deal with the star customers.

6. Stop soliciting accounts which are not potentially profitable and avoid making too frequent calls on customers in the second list mentioned above.

7. Except in the case of sample orders, refuse to accept orders which call for items or units in less than standard package lots.

8. Make arrangements to take care of incidental business which comes in unsolicited from small customers, so as not to give offence or create a spirit of hostility, but aim to reduce such business to a minimum.

In any plan of selective selling, due consideration must of course be given to decent business ethics and restrictions imposed by law.

The adoption of such a plan has resulted in a stronger, more efficient sales organization and at the same time has brought about a substantial reduction in distribution costs. I believe that the general adoption of the principle of selective distribution, based on more accurate and detailed cost and market information will do much in helping to solve many of our distribution problems. *Paper presented before a meeting of the Taylor Society on Marketing Costs, arranged by the American Marketing Society, New York, December 9, 1932.*

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(*Comment continued from page fifty-two*)

to their apparent disadvantage. In the face of this dilemma they will undoubtedly decide gracefully that their prospects are better if they make contracts accepting a variable portion of social income, especially if by making the basis of mass purchasing a constant, the range of variability is likely to diminish or even tend to disappear.

We have so far emphasized the changes in historical and natural conditions referred to in the quotation from Professor Clark, and the inevitable accompanying changes in mental attitudes. There is more to it: we are actually taking steps toward making labor costs a fixed overhead, and capital and profits the variable.

At this point let us make a clarifying statement which should have been made at the beginning. Labor has always been, and is today, a fixed *social* overhead. So long as through charity, made-work, anticipated work, work-sharing and unemployment compensation schemes we refuse to permit workers to starve, we have established labor as an overhead charge on social income. But this is a social rather than a recognized industrial overhead. It is part of the social accounts which we do not keep, but not a part of the commercial and industrial accounts which we do keep. And by adhering to the fiction that maintenance of labor is not an overhead because we keep it from being an overhead in the accounting of individual enterprises, we deceive ourselves, destroy the morale of workers and make the task of achieving social progress more costly and otherwise more difficult. In talking tonight about the reversal of capital-labor relations, we are talking not about a reversal in what fundamentally exists but in our recognition of and organized provision for what exists.

In point of time the first feeble but significant steps already taken toward organizing labor's overhead status is in legislation relating to accident compensation and to old-age pensions, and in the efforts of a number of individual concerns to compensate for unemployment out of reserves established for that purpose. The actual steps have been feeble but their influence has been considerable and it is safe to assert that we have entered the path which leads to universal accident and unemployment compensation and old-age pensions.

The second and more recent step is in provision of the Industrial Recovery Act and associated acts which establish minimum wages and maximum hours, and promote labor's opportunity for organization to advance its claims to a revised status. To be sure, there is no compulsion to employ; but such compulsions as are involved are an expression of so new a point of view that subsequent steps leading to a compulsion to employ may come without the difficulties one would have expected a year ago. At the least it seems clear that current evolution is in the direction of making labor's income an overhead on industry and of assigning capital and ownership to "second table." Probably many of us will live to see the day when we rewrite the forms of our contracts in such wise that the claims of capital as well as of ownership are equities instead of mortgages, and the claims of wages—of management as well as of detailed execution, of those unemployed as well as of those employed—are fixed charges with priority rights.

(*Comment concluded on page sixty*)

# Applied Scientific Management

## V. Accounting as a Tool of Management

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IN PREVIOUS articles of this series I have mentioned the importance of control of the company's affairs by the general manager. I fear, however, that I may not have sufficiently emphasized the importance of control over quick assets and current liabilities. Freedom from debt and adequate cash balances are of vital importance to the successful management of a business regardless of all that may be said with respect to the necessity of credit in our industrial scheme. All too often the moderate-sized business follows the easy path leading to ultimate difficulty by procuring additional credit to pull it out of a hole when all that is needed is intelligent management; and this is greatly facilitated by such knowledge of facts as is afforded by the various reports that have been described.

All that one needs do to be impressed with the value of freedom from debt and adequate excess of quick assets over current liabilities is to look over the annual reports of some of our most successful large industries. I have in mind one which could go on as it was during the worst year of the depression seven years more before it would be obliged to borrow or incur any other form of indebtedness. Financial independence means much to the individual and it means more to a company.

It will not be amiss to state again that accounting should be, and is, as it was devised by Taylor, one of the most important tools that can be placed at the disposal of the manager. In a description of his accounting system written by Taylor about 1890 he makes the following introductory statement:

The object of keeping accounts is to enable the bookkeeper:
1. To classify and record accurately and systematically all of the assets and liabilities of the company.
2. To record all transactions of the company, and classify them in such manner as to enable those engaged in the business to obtain frequent and exact information as to the financial side of all departments of their business.

In choosing a bookkeeping system then, the following considerations should be borne in mind:

a. The system should be such that no error can be made which will not be indicated from the books themselves within a *few days* after it occurs.

b. In case of error, the books themselves should indicate a comparatively small section of the accounts in which the error is to be found.

c. The system should be so planned as to render the temptation to steal of those handling money as small as possible, and also to render the complicity of at least two employes necessary to accomplish theft, and in case of theft or error, to enable an auditor to detect and trace same readily and rapidly.

d. The system should insure daily posting of all credit and debit books, a daily balance of all of the transactions of the company, and a complete *daily* balance of the cash book, so that at the end of the month the books may be immediately closed, and the monthly statements made from them without delay.

e. The system should leave the chief officers of the company absolutely free from the details of bookkeeping, and even from the necessity of signing more than one or two checks per week; while at the same time keeping them fully posted, at the beginning of each day, regarding all transactions of the previous day and all obligations to be met in the near future. (Author's Note: Taylor advocated what he termed the "Two Bank System," i. e. a treasurer's bank account [or accounts] and a cashier's bank account. *All* receipts being deposited in the treasurer's bank, while practically all payments are made from the cashier's bank account. The cashier's bank account is limited to a suitable amount, say, equal to ten day's average disbursements; the cashier being bonded for this amount. Checks are drawn on the cashier's bank in payment only of duly approved vouchers and require only the signature of the cashier. At suitable intervals, upon the presentation of receipted vouchers, the treasurer draws a check transferring an amount equal to that of the receipted vouchers to replenish the cashier's funds.)

f. In case the volume of the business becomes very great, or in case of an emergency, when a statement is required in a very short time, it should be possible for two or more bookkeepers or clerks to work on the books at the same time without interfering with one another, and yet hold each responsible for an error in case one is made.

g. The accounts should be classified and grouped so that at the end of each month the total expenses of the month, including all such items as interest, depreciation, taxes, insurance, sales and traveling expenses, as well as all of the more direct expenses of the business, may be charged directly and equitably on to the sources from which we derive our income; i.e.: in case we are buying and selling merchandise, the month's expenses should be equally distributed to the merchandise sold; in case we are manufacturing goods, the total expenditure should be charged directly and be uniformly distributed on to each of the classes of goods which we manufacture. (Author's Note: Largely as a result of new and additional forms of taxation it has become the general policy and practice to charge and distribute to the cost of goods as manufactured, only those indirect expenses which are an outcome of plant operation, and to distribute all commercial, general administrative, sales and similar expenses, each month, to the goods sold.)

h. At the end of each month statements should be made out, showing the balance sheet of the books and detail cost sheets, and such other reports as may be necessary to indicate, either an improvement in manufacture or the reverse, and to enable the managers to locate and indicate the cause of this improvement or the reverse.

The various reports emenating from and forming a part of the Taylor accounting system were discussed in the previous article of this series. The foregoing quotation from Taylor sets forth the objectives and fundamental requirements of a system of accounting designed to serve as an effective tool of management. To appreciate fully the radical nature of such a system as Taylor describes one should know something of the history of industrial accounting as it prevailed when he first became interested in the subject.

The sole merit of early industrial accounting was simplicity. All expenses of every nature were charged to a single account generally styled the "manufacuring account." Materials as purchased, bills for services, payrolls, etc., as well as inventory value at the beginning of the year, were debited to this account. On the other hand, there was a sales or "operating account" to which all revenue from sales or other sources was credited. At the end of the year an "account of stock" or physical inventory was taken and on one basis or another the various items of material, work in process, etc., were priced and valued and the resultant total credited to the manufacturing account. The remainder presumably represented the cost of the goods sold during the year and was debited to the sales account. The dif-

ference between the revenue from sales, credited to the sales account, and the debit just mentioned was taken as the profit or loss on the year's business. During the year the company had no accurate knowledge from month to month as to whether it was making or losing money. Neither did such a system afford any information as to the relative profitableness of the various classes or kinds of products manufactured and sold. It did not classify and analyze expenses, or provide accurate cost figures. Strange as it may seem, one may still find businesses, some of them rather important, in which such a system of accounting continues to be the practice. And more strangely still, one occasionally finds a company which, despite such poor accounting methods, is prosperous and successful. But these exceptions are becoming more and more rare.

During the late nineties a wave of interest in cost keeping spread over the country. This included stock record or perpetual inventory cards. Direct labor cost and the cost of materials were charged more or less accurately, in considerable detail and rather cumbersomely, to cost sheets for various lines of products or production orders. Costs were sometimes kept by departments, usually with little or no significance. Upon completion of an order "overhead" or "burden" or "non-productive expense," as indirect expenses were variously termed, were added to the direct cost on an arbitrary basis, usually as a percentage of the direct wages charged to the job, and having little or no relation to the actual indirect expenses prevailing. Cost keeping was something apart from and having no relation to the system of accounting.

It remained for Taylor to evolve a system of accounting, including as integral parts the accounting for materials and the cost of products and analyzed expenses, in which the books were closed every month instead of once a year, and which provided information in the form of periodic reports such as have been described, thus making the system not only serve the purpose of accounting for money from the time it came into the company's hands until it was disbursed, but in addition serving as a tool of management to a degree previously unknown.

Taylor's scheme of accounting was also novel in that it provided for a logical distribution of the indirect expenses of each month to the cost of products worked upon.

With regard to the books kept and the manner of their keeping, Taylor said in his original description (at a time when single-entry bookkeeping was still to be found in many businesses):

The double-entry system of bookkeeping has come to be regarded the world over as the best, but there is almost as wide a difference between the various double-entry systems as between the double- and single-entry systems. All systems of double entry, however, contemplate the use of three styles of books at least, the Journal, the Cash Book and the Ledger. (Author's Note: The Cash Book is of course essentially a journal whose use is limited to the chronological recording of a specific class of transactions; hence it may be said that Taylor's use of a Register of Accounts Receivable, which is a special journal in which the initial record of all sales and similar revenue producing transactions is made, and the Register of Accounts Payable, in which all of the company's indebtedness to others is primarily entered as it occurs, and any other special journals, was a logical development of this idea.)

The Journal and the Cash Book are the books in which all transactions of all kinds are first entered, and the Ledger is the book into which entries made in the Cash Book and Journal are copied and classified into groups such as may be necessary to obtain a full knowledge of the financial affairs of the company.

One of the distinctive features of the method of bookkeeping which the writer is describing from the other methods is that *several journals* are used, each used for a different purpose; *several ledgers* are also needed.

In the Cash Book Taylor carried out the practice of classifying and grouping entries for various kinds of transactions. He did this by allocating at the start of each month one or more pages or a part of a page to each class of transactions regularly occuring during the month, these being under the Taylor system of accounting:

Cash Debit—Accounts Receivable Credit
Cash Debit—Notes Receivable Credit
Accounts Payable Debit—Cash Credit
Notes Payable Debit—Cash Credit

The greater part of all transactions involving cash passed through these accounts.

Money received or disbursed as a result of transactions other than those which occurred with sufficient frequency to justify the assignment of a specific space were grouped and entered under a common miscellaneous heading. These latter would include advances to and returns from salesmen or disbursing agents, and any receipts other than those resulting from transactions in the regular line of the company's business which would be handled as Accounts Receivable; such as interest or dividends on bank accounts and investment.

Summarized entries of each day's receipts and disbursements are kept on a page immediately preceding the space set aside for each month's entries in the Cash Book, and a balance is struck at the end of each day's business.

Groupings of cash transactions may of course be accomplished by columnar ruling such as Taylor used in the special journals which he designated as the Register of Accounts Payable and Register of Accounts Receivable. In regard to these two special journals, which in present day accounting are sometimes designated as the Voucher Register and the Sales or Invoice Register, Taylor wrote:

Practically all of the transactions of the company that are in the nature of the legitimate business for which the company is formed, originally pass through either the Accounts Receivable or the Accounts Payable.

Since in the Accounts Payable are entered not only all individuals and companies outside our employ who sell us anything or render us service but also our own employes, from the president of the company down, including all payrolls, practically all that we owe should at one time or another appear in this account. (Author's Note: Employes would not of course appear individually but as components of one or more "payroll" accounts, which would be treated in the same manner as a creditor from whom the company purchased goods or services.)

In the same way all merchandise that we sell, or materials which we furnish other people in the regular course of our business, should be recorded in the Accounts Receivable.

There are a few exceptions to the above rules since every concern must have some transactions that are not in the nature of its legitimate business. For example; if we act as the temporary agent of someone else, not a regular customer of ours, and buy something for them or render them a service—this transaction would not appear in either of the above accounts. Parties with whom we have such transactions outside of our regular business properly belong under the head of Individuals and Companies Miscellaneous. (Author's Note: There would be two groupings of such accounts in the General Ledger and shown on the General Ledger Balance Sheet, i e., Individuals and Companies *owing us*, and Individuals and Companies *whom we owe*.)

There is also another class of accounts which belongs properly under Individuals and Companies Miscellaneous, that is, if the treasurer of the company sends or gives money to any disbursing agent, as for example, a salesman who must have money in advance to pay his traveling expenses, or if money is given to an agent to buy some small supplies . . . in this case the individual who receives the money from the treasurer is charged with the amount, for which he gives a receipt. The general ledger name of these individuals is Individuals and

Companies Miscellaneous, while in the detail ledger of Individuals and Companies Miscellaneous will appear the name of the individual who receives the money. . . .

Again the interest accounts do not pass through either of these accounts. Also a few Bills Payable in case we wish to borrow money and a few Bills Receivable in case we loan money, do not originate in these accounts, but the majority of the Bills Receivable and Bills Payable are given and received in liquidation of accounts which originally appear in either Accounts Payable or Accounts Receivable. (Author's Note: Notes Payable, Notes Receivable.) In the same way most of the cash paid out and received is in liquidation of transactions originally recorded in one or the other of these two accounts.

Among other transactions which would not pass through Accounts Payable and Accounts Receivable would be invoices for goods shipped on consignment and dividends payable.

From the foregoing it will be evident that Taylor's object was to segregate in Accounts Payable all transactions which represent indebtedness contracted in the regular conduct of the business and which must ultimately enter into the cost of the company's products and their sale; similarly in Accounts Receivable to show all of the amounts owed the company by customers to whom it has sold goods. Not only do we thus avoid confusing various kinds of obligations, but the closing of the company's books is facilitated, as are also the determination of costs and the profit or loss on sales of the company's products as distinguished from revenue and profit from other sources.

In addition to the Cash Book and the two special journals mentioned, which will be described more fully, a company may have special journals for other types of transactions where the volume may warrant their use; for example, merchandise shipped on consignment and dividends payable. A summarization of the transaction entered currently and in detail in these special journals would at the end of the month be entered in the General Journal and all other transactions would be entered currently and in detail in the General Journal. The latter would be grouped under appropriate headings representing the General Ledger accounts involved. For example; a customer gives us a note in settlement of an account which would be entered under a heading Accounts Receivable Credit—Notes Receivable Debit. Or a salesman turns in an expense statement accounting for the use of money that had been advanced to him. This would be entered under the heading Individuals and Companies Credit —Sales Expense Debit. Special journals might be used, however, if the volume of such transactions were sufficiently large.

A fault frequently found in present day accounting practice is the failure to pass certain transactions involving expenditure of money through Accounts Payable but, because the company operates on a cash basis as far as the transactions in question are concerned, to enter them only in the Cash Book as payment is made. I have reference to such things as monthly bills for telephone service, telegrams, freight, electricity, etc. The only purpose in doing this is to save the journal entry in the register of Accounts Payable and the consequent posting to the detailed ledger account of the creditor concerned. In such cases the expense account concerned is debited from the Cash Book. Any advantage resulting from this practice is offset by the lack of clarity and by the complication in closing the books which it entails. Where the practice adopted by Taylor, of handling virtually all transactions with debtors or creditors through Accounts Payable and Accounts Receivable in the manner which will be described, is used, both general accounting and cost keeping are simplified and rendered self checking to a great degree. In addition, the activities of the business as reflected by revenue and expenses are so analyzed as to present information in the form required for the periodic reports discussed in my previous article. From day to day the management may obtain from the Cash Book and from the Registers of Accounts Payable and Receivable a clear picture of the state of the business as set forth in the Daily Report of Cash Transactions—and in even greater detail if desired. For example, from the Register of Accounts Payable, the manager may not only know what the obligations for the month to date amount to, but he may also from one source of information know how much of this is charged to stores for materials or supplies, how much is for payrolls and how much is charged to the several classes of indirect expense. Likewise, from the Register of Accounts Receivable he may know the total of all sales billed and the amount of sales for each class of product or even subdivisions thereof.

In describing the Register of Accounts Payable and its use Taylor wrote:

> One of the greatest advantages of this system is that we are enabled to number consecutively . . . all of the transactions . . . and by means of these consecutive numbers trace readily each transaction and follow it through the books, however complex the business and however great the volume of it may be. . . .
>
> After the first column in which is to be entered the consecutive number of the voucher on which payment is to be made, and the date column in which the date of entry of the voucher is written, comes the column headed Accounts Payable, Cr. Here are written the names of the parties whom we owe, or in case it is a transaction with our own employes, the payroll or salary list is entered, with the full amount to be paid in the amount column, also the detail ledger folio in which this individual account is to be found. (Author's Note: In Taylor's original practice a separate voucher was sent with the check to the creditor who was required to receipt and return it. The face of the voucher carried the purchase order number and the customer's invoice number or date for each item covered by the voucher as well as the amounts and on the back was shown the account or accounts to which the amount of the voucher should be charged. When payment was made both the number of the voucher and the check were shown in the Cash Book. The voucher number was posted to the detail ledger when the individual account was posted from the entry in the Register of Accounts Payable and the check number from the Cash Book when the debit entry was made. The use of voucher-checks has become common practice; this document receives a voucher number when entered in the Register of Accounts Payable and is regarded solely as a voucher until such time as the check portion is signed by the proper official. It is then given a consecutive check number on the bank from which it is to be paid. The importance of keeping these two series of numbers independent will be obvious.)
>
> The balance of the page is used for entering the names of the various accounts which are to be debited, equaling the amount which the Accounts Payable have been credited, and in order to simplify the entries in the General Journal, which are made at the end of the month from this book, this page is divided up into a series of columns, a whole column being used for each of the most active accounts in the General Ledger which are affected by the bills which we have to pay.

For the average business these columns would be about as follows and would be headed up according to the first letters of the classification for the business as discussed in the second article of this series. For example there would be debit columns for each of the following:

A. Auxiliary Department Expense
B. General Business or Administrative Expense
C. Sales Expense
D. Manufacturing Department Expense
E. Research and Development (experimental) Expense
G to W. Products; one or more columns as might be desirable, depending upon the nature of the business
S. Stores (purchased materials)

X, Y and Z. Capital Expenditures (Building, Real Estate and Equipment.

A column for any General Ledger accounts not included in the foregoing; for example, weekly payrolls which may not be distributed to the various expense or work in progress accounts until the end of the month and taxes paid in advance which are to be apportioned monthly to costs. For such entries the column should provide, in addition to the amount, space for a symbol or description indicating the nature of the charge, as well as the particular account to which it is to be debited.

Instead of a single column for the principal expense groups as indicated above, each section might provide several columns for the major subdivisions of a group or General Ledger account in accordance with the classification, provided the number of transactions were sufficient to justify such an arrangement. While the segregation into the principal expense groups is sufficient for posting at the end of the month to the General Journal and thence to the proper General Ledger accounts, it is necessary that in one way or another, the individual entries be so identified as to enable their being set up on the Monthly Expense Analysis as supporting detail of their General Ledger account or expense class, in conformity with the classification. As I have stated, this may be accomplished by the provision of columns for all or the most important subdivisions, or by providing under each heading space for the symbol of the individual entries as well as the amount. Usually an effective compromise is to provide sub-columns for a few of the more important of the subdivisions of the principal expense groups, these showing their symbols at the top, and to provide one column with space for entering the symbol in front of the amount for all others. In the case of columns in which all or several subdivisions of a principal expense group are to be entered, the expenses pertaining to each of the several symbols must either be picked out at the end of the month or they may be posted daily to detailed ledger accounts in the same manner that the entries are posted to the detailed ledger accounts of the various creditors.

As previously stated, one of the important aims of the Taylor system of accounting is to avoid errors, or if errors do occur, to enable their being promptly brought to light and located. It is evident that the total of the amounts entered in the columns of the Register of Accounts Payable representing the General Ledger accounts to be debited should agree with the total of the amounts entered in the creditor's column. This should be done each day so that at the end of the month we are assured that the amounts to be debited and credited in the General Ledger are free from error and in balance. In a similar manner the debits and credits in the Cash Book should be balanced each day. The Daily Report of Cash and Related Transactions should be so designed as to require this daily balancing of the various journals.

Reverting for a moment to the Register of Accounts Payable, it was Taylor's practice usually to disregard the vendors invoice as a source of entries on vouchers and the consequent entry in the register of Accounts Payable. It was the rule that a purchase order be issued for every service and for all materials furnished by a vendor, and that in each case the exact net amount be shown on the purchase order. When the vendor had filled a purchase order, the person who received the goods sent a written notice to a person designated as Auditor, to the person who had originated the requisition for the goods and to the purchasing agent. Next an inspection was ordered and made by a designated person qualified to pass upon the quality of the goods. The Inspector reported in writing, sending a copy to the Auditor and to the Purchasing Agent. Each of the parties mentioned had a copy of the purchasing order to which he attached the reports concerning the goods. Upon receipt of the two notices, providing the goods proved to be as ordered, the Purchasing Agent considered the transaction closed and withdrew it from his follow-up system. The person who originated the requisition took appropriate action, as in the case of materials for stock, the Balance-of-Stores Clerk entered them on his Balance-of-Stores records; if special materials procured were to be used in the production of a specific order, the clerk in charge of that function accordingly posted his records and advised the production supervisor of the availability of the materials. The Auditor made out a voucher in favor of the vendor which he passed through to the Accounting Department to be approved, entered and paid in due course. Upon the voucher the Auditor made all of his entries from the copy of the purchase order and, theoretically at least, paid no attention to the customer's bill. Exceptions of course must be made to such a rule as this in accordance with the dictates of common sense.

All along the line Taylor attempted to provide safeguards against fraudulent or dishonest practice, such as might be possible between a Purchasing Agent and a vendor in the absence of inspection and approval of bills by persons who are not responsible to the person who places the order. In this instance it will be evident that fraud might not be committed without collusion between the vendor and at least three people in the company's employ. However, this safeguarding is only incident to the handling of the transaction efficiently rather than something superimposed thereon primarily as a preventative measure.

The Register of Accounts Receivable is quite similar to the Register of Accounts Payable. Its first group of columns provides for the following entries: The consecutive number of the transaction, which is of course entered on the invoice to be sent to the customer; the date of the transaction; the folio (page or card number) of the customer's account in the detailed Ledger of Accounts Receivable; the name of the customer; the total amount of the invoice to be debited to the customer's account and included in the aggregate General Ledger debit to Accounts Receivable at the end of the month. The remainder of the page is ruled to provide a number of columns each to be headed with the General Ledger account to be credited, which collectively is included in the broad grouping of Merchandise Sales. These columns would represent respectively the major classes of the company's products in conformity with the classification. As explained in discussing the Register of Accounts Payable, it is usually desirable to provide under these headings space in which to enter the symbol of the sub-groups or of the specific products which it includes, in order to facilitate more detailed analysis of sales and profit or loss as set forth on the monthly report.

Each day the Register of Accounts Receivable is checked to see that it is in balance; i. e., that the total of the entries in the debit column agrees with the sum of the totals in the several credit columns, and the doing of this is assured by the fact that the information is necessary to making out the daily report of transactions. Postings are made daily to the detailed ledger accounts of the various customers, and at the end of the month the totals of the columns are transferred to the General Journal and thence posted to the General Ledger accounts concerned.

In the average business the three special journals that have been discussed together with the General Journal are adequate. This of course involves the compromise of using the General Journal as a book of initial entry for any other class of transaction. Typical of such exceptions is the example noted above of a customer who gives a note in liquidation of an Account Receivable. Such a transaction would be entered as it occurred in space alloted at the beginning of the month in the General Journal, under the heading Notes Receivable Debit—Accounts Receivable Credit. From such entries there would be a daily

posting to the detailed ledger accounts of the customers concerned, a credit to the customer in the detailed Ledger of Accounts Receivable and a debit in the detailed Ledger of Notes Receivable. At the end of the month the total of such entries would be posted to the corresponding accounts in the General Ledger. If the company had very few such transactions it would make a compromise in the matter of not having a detailed Ledger for Notes Receivable similar to that made in the case of the Journal, and would currently post the details to a page in the General Ledger for Notes Receivable as transactions occurred. The same would hold good in the case of Notes Payable if the company occasionally gave its note in settlement of an Account Payable to a creditor.

An interesting detail in connection with Taylor's handling of Accounts Payable and Accounts Receivable was his practice of posting, in the detailed ledgers, each payment received or made, on the same line opposite the original entry which it settled. This enabled one to see at a glance exactly how an account might stand. Of course "payments on account" by customers may offer a difficulty in some cases, but as a rule the customers' co-operation in this matter may be secured. It was also Taylor's object to make the books self-explanatory to a far greater degree than had previously been the practice. For example, whereas it would have been necessary under the old way of doing things, where a transaction with a creditor was recorded simply, for the credit entry as "to merchandise" and its settlement "by cash," our entry might show the purchase order number, the voucher number and the symbol of the particular material, and when paid, the check number. Under the old scheme of bookkeeping it was frequently necessary to trace a transaction back to its source in order to get such simple information.

Taylor's system of accounting was of course originally designed for manual entry in bound books. It may, however, be readily adapted in such degree as may be desirable to the various forms of mechanical accounting. Such adaptations, while offering certain advantages, sometimes entail a sacrifice of flexibility or added complication which may offset their benefits.

In this article it has been my endeavor to make clear certain of the principles underlying Taylor's scheme of accounting and to some extent the purposes to be served, as well as to describe the books in which transactions are originally entered. In the next article the various ledgers and the accounts appearing therein will be taken up.

*This is the fifth of a series of articles which began in the October issue of the Bulletin of the Taylor Society.*

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*(Comment continued from page fifty-five)*

NRA looks in this direction and has taken slight steps in this direction—chiefly at present looks in this direction. Various choices between a succession of forks in the road ahead by administrative and legislative decisions will determine the direction in which we really face. One of these forks is indicated by a necessary choice between, on the one hand, labor as a recognized and organized overhead cost and, on the other hand, interest and profits as an overhead cost. At present NRA appears to be trying to choose both. It appears that it started with the assumption that American society cannot and will not stand for the former method of readjustment by sufficient bankruptcies and unemployment; that capital structures must be preserved; that at the same time labor must be given a larger share of social income to establish purchasing power; and that employers shall be compensated by increase of prices. There are inconsistencies here and it is inevitable that they will become clear as the issues are drawn sharply.

It is possible that in the future some arrangement may be worked out whereby interest, profits and wages will each to a certain extent be established as overheads, and each in addition have a claim to the variable surplus of income. But whatever the formula in particular, in general it will undoubtedly recognize the claims of worker-consumers as an overhead of a higher order than the other two.

## NECROLOGY

### Professor Charles Adamiecki

**1866** **1933**

Warsaw, Poland

A creative leader in the Scientific Management movement has been lost through the death on May 16 of Professor Charles Adamiecki, director of the Institute of Scientific Management at Warsaw, a vice-president of the International Committee on Scientific Management and a member of the council of the International Management Institute, Geneva.

In 1903, the same year that Taylor presented his paper "Shop Management" before the American Society of Mechanical Engineers, Adamiecki read a paper before a technical society in Poland which presented the idea that management could be put on a more scientific basis. Consequently he appreciated the significance of the work of Taylor who had already constructed the technique expressive of that point of view.

Adamiecki became and remained until his death an independent creative force in the European management movement. His death took from us the last of an international trio—Adamiecki, Fayol and Taylor.

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## Semi-Centennial Celebration of the Graduation of Taylor from Stevens Institute of Technology

***See the Outline of December Meeting Program on back cover***

# Three Papers on Economic Security

Presented to a Meeting of the Taylor Society, New York, December 9, 1932

## I. The Responsibility of the Individual for His Own Unemployment

*By* E. HAYDEN HULL

**Management Consultant in Personnel, New York**

THE ENGINEER measures and weighs. His emotions, as a good engineer, are supposed to be kept in the background in any truly analytical study. He can therefore not be blamed, even in these times of human distress, if he casts an appraising eye at the situation and tries to evaluate the degree of the individual's own responsibility for his unemployment. The fact is obvious that some people are working and others are not. Why are those particular people at work? Why are some people walking the streets while their fellows still have jobs? Of course there is a myriad of answers. Changing conditions have altered, in a variety of ways, our opportunities to get jobs and to keep them. Present economic circumstances have also forced out a certain proportion of the working population with absolute inevitability. But why these particular ones? To what degree are they responsible, and for what are they not responsible? To what degree is society itself responsible? To get a proper perspective on this matter, we should review for a moment the fundamental change which has come about in our whole industrial and economic situation.

It was not so long ago that all of industry was of what might be called the "frontier" type. Operations were simpler and individuals supplied their own wants to a considerable extent. Concerted enterprise in production was comparatively limited. There was substantially no lack of employment, for in general every man employed himself, or at least was but one step removed from the employer, and maintained a more or less permanent relationship which was in some respects that of a family.

I need do no more than remind you that today we have a very different picture. As far as the individual is concerned, only a minority can any longer employ themselves. Most people are now dependent upon their ability to serve someone else profitably and satisfactorily, and are thus subject to all the vicissitudes of our industrial and social system.

As far as the system itself is concerned the changes are equally fundamental. Technological developments, mass production, division of labor, rapidly shifting vocational requirements, the segregation of the worker from the real boss, various broad economic and social developments, have overturned older methods and have also tended to sacrifice the worker on the altar of general material progress. They have in many cases impaired his economic security, destroyed his old vocations, nullified his past skills, reduced him at times to a mere cog to be discarded when slightly worn; they have limited the duration of his self-supporting working life, submerged his individuality and hampered his opportunities for growth.

These vicissitudes are added to by the fact that even before the depression we had changed with relative swiftness from a deficit economy to a surplus economy. Formerly society was short of goods and was eager to take all that could be produced, of any sort which filled its wants.

Under our more recent surplus economy there is always more productive capacity and more productive man power than society now knows how to use. The fact that under a properly planned and balanced world economy, society could still use all that men could produce, does not alter the fact that at present our economy is decidedly a surplus one. This being the case, the lot of the unit producer—the average man or woman—is made more difficult by the general decrease in the demand for productive services. There are not enough jobs.

Widespread and inevitable unemployment will exist in the future to a large and perhaps increasing average degree as long as we have the national lack of planning, the limited economic vision, the want of stabilization, the maldistribution of purchasing power and other factors which adversely affect our national economy as a whole. Furthermore the vicious cycles of unemployment and bad times will recur unless remedied, and will bring in their train increasing difficulties for the person who must earn a living.

Another factor produces what might be called sociological unemployment. That is the loss of a position due to changes in fashion, or other caprices in public demand whereby an entire craft skill may become obsolete. The worker is helpless in the face of such social change. Even so-called technological unemployment is more of a responsibility on general society than is sometimes admitted.

Strictly speaking, a man is technologically unemployed only if he has been actually thrown out of work by the introduction of a machine or process, and there is no other work which he himself is able to perform under any reasonable circumstances. Of course this is really a somewhat unusual case. If a man who is thrown out of work by a machine is capable of doing other kinds of useful work, but is not able to secure such employment, the fault is not strictly with the machine (which is a builder of productive efficiency and lower social costs) but is with society and our industrial structure for not having available other kinds of work. This man should then come under the classification of general unemployment rather than technological.

It is not the function of this paper to assess the relative responsibility of industry and society at large for each of the various causes of unemployment. For some, industry itself is primarily responsible. For others, our whole social-economic structure must share the blame.

What we are principally interested in here is the relative responsibility of the individual himself for getting and keeping a job. Is he doing the best he can under the circumstances?

The picture of his difficulties is not a pretty one. He appears to be pitted against a host of adverse forces and conditions. There are not enough jobs to go around in the first place. He gets and learns a job, and then the whole vocation disappears through a change in fashion or technique. A machine drives him out of another. A faulty industrial and economic system brings on a depression and drives him out of a third.

Society has also perhaps afflicted him with other difficulties which handicap him. He has to struggle against the effects of lack of adequate preparation by our educational system and by industry itself. He is discouraged by the lack of adequate opportunity in many cases for any kind of substantial economic

advancement. He is hampered and denied opportunities for the satisfaction which comes through maximum self-expression in work which has been properly selected and properly supervised. His environment makes it difficult for him in many cases to preserve his own self-regard at a normal level; it tends to hamper his initiative and to lead to a warped or undeveloped personality.

In addition to these difficulties he is subject to other conditions over which he has only partial or no control. If he is going to preserve that personal morale which is so important to continued employment, he may have to combat the effect of unhappy home conditions, financial worries, personal worries, accidents, impaired health, advancing age and uncertainty for the future. He may be suffering from faulty bringing up in childhood, improper schooling, an inconsiderate employer and the general miseries of a depression.

One is tempted to say that such a man is almost a complete victim of the circumstances of industry and society and has little chance for escape.

Now let us look at the other side of the picture.

In the course of its development from primitive being, human nature has met and surmounted almost incredible difficulties. Man has survived, as man, because he was able to rise superior to his environment; and he has done this through qualities which he possessed within himself and which are in fact ineradicable from human nature. They may in any particular individual be weak or dormant, misapplied or overgrown with inhibitions, but they are there. They are for use. We know also that strength is only attainable through conflict. Skill is obtained through the suitable adaptation of powers to circumstances.

May we also examine briefly the underlying philosophy of the situation? I think we can say, without fear of contradiction, that it is the duty of every individual to make the most of himself that he possibly can, both as a personality and as a member of society. If it were otherwise life would have little meaning. If every individual were content to sink to the lowest possible level of existence, he would become in effect merely an animal. Organized society would be impossible. As a matter of fact not only the history of the development of the human race from its beginnings but also current experience when the territory of backward peoples is opened up to the influences of civilization, as in the case of old Japan, show that the normal course of mankind is upward.

If then both philosophy and common observation show us that the normal state of man is in the development and use of his natural powers, and if, indeed, as John Dewey says, growth is really the only truly moral end, we may say as a general proposition that the individual who sinks permanently in the struggle of life has *per se* a certain weight of evidence against him.

We must now say, however, that because of the adverse circumstances which we have already outlined, the difficulties which the individual has to combat at any one time may be very great both externally and internally. While a person may progress easily and rapidly in a favorable environment, there is no doubt that when the environment is unfavorable it is necessary actually to fight. This fight interests us here. Its conduct gives us a measure of the man. How does the successful man hold his job, or get another if he is out? How does the permanent failure fail? Where does responsibility lie?

If an individual of working age and normal ability is more or less permanently unemployed, or if he has lost his job in fair competition with others, the appraisal of his own responsibility for his unemployment is to a considerable degree a psychological matter. However, as the psychology of an individual is gauged by his behavior, we can approach it in that way. We can set up a series of questions which this particular unemployed man ought to be able to answer affirmatively. If he cannot, the evidence is against him until he can show that each point is in no way responsible for his unemployment.

In the process we shall produce a check list which may be useful also to anybody who is interested in his own progress. The list is hardly exhaustive, but will be sufficient for the purposes of our present discussion. The questions follow: with comments on some of the internal forces which it is man's responsibility to use in working out a satisfactory answer.

You will recognize in each of these questions a point wherein you yourselves have seen some man fail unnecessarily. When you saw this, you blamed him either consciously or unconsciously. This is your personal evidence, if evidence is needed, that in these matters you expect any worker to meet at least the standards implied in the question and his own circumstances.

The first question then which this unemployed man must answer satisfactorily is: Had you prepared yourself properly for the job that you were last holding? Unless in exceptional cases, a man's degree of fundamental preparation for his job is his own responsibility.

The first kind of preparation is in the realm of intellect and knowledge. We all recognize that our intellects are gifts to be trained and to be stored with types of knowledge which will be useful to us in some vocational field or fields. This has no exclusive reference to formal educational procedures of a scholastic nature, for in these days facilities for getting any necessary scholastic attainments are available through self-study or instruction out of hours. It is further true that the alert mind, intelligently focused, educates itself through observation and reflection in a way that is quite impossible through scholastic procedures. In education, then, we may say it is largely up to the man himself as to how much he will take.

The second kind of preparation for the job is in the field of the technique of the job. Here the company may be partly at fault through its training methods, but it is up to the man to show that he took full advantage of such training as was provided. So much for the preparation.

The next question is: Did you perform your job operations at your maximum effectiveness? This means, on the mental side, concentrated attention, careful reflection and effective planning. Common observation shows us that the successful man habitually "uses his head" but that the unsuccessful are apt to make grievous errors in this respect. Whether they be errors due to carelessness in the mental processes, lack of adequate information or merely mental laziness, makes no difference in the end result. It is there and the *prima facie* evidence is against the individual.

On the operating side effectiveness here means the conscious development of maximum skill, accuracy and thoroughness. It means industry and application. There is perhaps no single quality whose lack causes so many separations from the job as the latter. I think we will all have to admit to ourselves that we are not always as industrious as we might be. We know also that we blame ourselves when we are not industrious. And there is a point below which a man cannot go in this respect and keep his position. Certainly our unemployed man must show a good record on this point.

The third question is: Were your human relationships sound? Were you able to get along with your fellows and those above you and below you? A certain amount of crabbedness and lack of co-operation is not always fatal, and its importance varies with different jobs, but it is almost always one of the factors taken into consideration when the decision is made to lay off this man or some other one in case of a reduction in force.

The fourth question is: Were you adaptable to circumstances?

The man who adapts himself too easily to whatever the current of his environment brings him, is apt to surrender something of his own strength of personality, but the qualities which make for adaptation are in themselves admirable and must be used. They include patience, an open and flexible point of view, prudence, willingness to meet the ideas of others and a reasonable desire for the approval of others, a philosophical attitude toward things as they are, and an attempt to meet them. The successful man strikes a fair balance. He adapts himself, but without really compromising his own individuality. Has the man who fails to hold his job been perhaps unnecessarily inflexible?

The next question is: Were your dependability and character above reproach? It is true that we do not hire a man unless we believe he is dependable, but the final proof is how he behaves after he has the job; and if he has been separated from his job, dependability is one of the points concerning which the man must show a clean bill of health.

The sixth question is: Knowing the rapidly shifting requirements of industry, had you appraised yourself thoroughly to see what other job or occupation you might profitably follow, and had you prepared yourself to proceed?

The man must recognize that as we are in a changing economic and industrial situation with respect to vocations, he must regard work in terms of the application of an adjustable capacity rather than of static abilities which he has already developed into preconceived formulas of operation. He can no longer be content with relying on the sort of thing which he has done. He must constantly prepare for something new either in part or as a whole. Our sympathy is necessarily withheld somewhat from the individual who merely sits and drifts. If he drifts out of the industrial picture here also the evidence is against him.

This brings us again to the subject of education. Most men think that when their schooling has been completed they are through with study. As a matter of fact, education is never complete and adult education is one of the vital forces in the future progress not only of individuals but of society at large. If a man is not willing to continue his own educational efforts, and for this reason, among others, now finds himself without employment, we have here a certain amount of evidence against him.

The seventh question is: Had you prepared yourself to take on more responsibility? Some men are fired because they cannot grow and there is nothing for them to do at their old jobs. Preparing for responsibility is not a matter solely of education, but of developing and broadening the power of the entire personality. This question is particularly applicable to those who have made a start up the executive ladder.

The eighth question is: Were you yourself in proper shape to do a good job? Have you taken care of your physical health and well being? Have you kept your emotional house clean and in order? If you have not you must be held responsible. No one can do this for you.

If this unemployed man can give satisfactory answers to all of these questions, he must still show a clean slate with respect to his efforts to get a new job. Even in these times, some men are being hired. Why is not he one of them? Here also we can go into some detail.

The first question we shall ask in this connection is: Have you kept your own personality well organized? This is one of the great hazards for the man who is out of a job, and we may find some rather serious difficulties here.

One personality factor on which we shall have to check is plain courage, the willingness to meet situations and facts face to face and fight it through as one goes along. This quality of courage is of a special importance in emergencies like the present where there is much which tends toward discouragement. It is also true that individuals differ considerably in the amount of native born courage which they possess. We can hardly admit, however, that there is ever any reasonable excuse for a man's taking the blows of adversity lying down.

Courage is one of those qualities which can be fortified by the action of other qualities and even a natural timidity often takes on the garb of a lion when faced with compelling emergency. Such qualities as faith and hope, the urge for protection of the welfare of loved ones, the will to live, desire for the respect and approval of others, faithfulness to an ideal, spiritual vigor, self-respect, all fortify and energize the manifestations of courage.

Self-respect requires a word of its own. It in turn is fortified by other qualities but hampered by some of the more materialistic tendencies. We need not go into these here as they are familiar to all of us through our daily experiences. It is sufficient to say that it must and can be guarded and upheld. It may be bent or bruised at times but there is that about it which requires us to keep it, unless we are willing to let almost everything else slide down hill. We have all known people who seem to have been the butt of every indignity that fate could shower on them, but who still kept their self-respect because they were still fighting; they were still trying, still thinking and planning vigorously. We have to take off our hats to these people. While they may not always be successful in the worldly sense they have made a success in their own personalities.

This is not the place to go into detail on the processes of mental hygiene, by which serious cases of personality maladjustment can be remedied, any more than of the vocational techniques through which hidden aptitudes may be discovered and known aptitudes given their right vocational application. The majority of people have reasonable capacity to command their own personalities as well as to attain competency in a vocation of their own choosing. The responsibility of the individual for actually doing this is a definite one, both to himself and to society.

The second general question which we shall ask the job-seeker is: Are you presenting a favorable appearance to the world? A well-organized personality almost automatically guarantees this, but it is also true that the thing works the other way. By acting and appearing as we should before the world, to make a good impression, it is a psychological fact that we thus help to maintain or rebuild the personality within. A neat appearance and self-respecting demeanor not only impresses the prospective employer, but also one's self. Certainly a man must be held responsible for failure here.

The third question is: Have you organized intelligently your campaign to get a job? The search must have a well-considered plan.

The next question is: Are you carrying out your campaign with energy, tenacity and thoroughness?

Energy is a factor in which a great difference is evident between the successful and the unsuccessful, and for which the individual must take a large degree of personal responsibility. Some people have more natural energy and some less, but the fact remains, as our common observation shows us, that the successful man uses a good proportion of all that he possesses and uses it effectively. In general, the unsuccessful man does not tap all the energy of his resources and uses ineffectively those which he produces. The most common fault here is what we call plain laziness, and for this also we must hold the individual responsible in the first instance.

Tenacity, the next factor, is plain stick-to-itiveness. The successful man having once charted his course pursues it constantly and doggedly. If he does not, he can hardly expect

to attain an objective which presents a series of obstacles to accomplishment.

The fourth question is: Are you studying your own abilities and the outside situation to see whether some change in vocation might be better for you in the long run? Many men fail because they were not in the right work in the first place, and can perhaps never succeed fully in competition with others. The responsibility for such self-examination is similar to that of the man still employed, but it exists in a still greater degree.

The fifth question is: Are you capitalizing your extra time, not spent on your job-campaign, in preparing yourself for the next job? Whether it be in building up greater knowledge about your old field, preparing for a new vocation, or fitting yourself for added responsibilities farther up the line, you are responsible for the present continuance of your personal growth. You need this self-development to help you get a job more quickly. The past is gone anyway. What of the future?

So much for the questions. They are hardly exhaustive but cover perhaps the most important range.

It will be noted that most of the personal qualities enumerated and the acts called for are substantially subject to a man's own volition. It rests largely with himself whether he chooses to be dependable, industrious and the rest; and to do the required things. This is a serious responsibility under any circumstances, and one which must be especially checked up when we are seeking to determine whether a man's unemployment is primarily his own fault.

The man who succeeds under adverse conditions has to fight. While it is true that some still have their jobs through luck, some through fortunate circumstances, or other fortuitous considerations, it is more frequently the case that a man who has his job today has earned it in competition with those who have been laid off.

In this connection we may say that it often takes only one hole to sink a ship. It often takes only one or two points of failure to sink an individual. The successful man has the intelligence, energy, courage and vision to keep himself checked up all along the line. We all have holes, of course, but we can learn finally to keep them pretty well covered up and to avoid their effects.

A man who still has a job, then, has fought fairly successfully the battle of the effective integration of his own personality, his adaptation to other people and to his present environment, and has prepared sufficiently for at least the immediate future, so that others have confidence in him that he will be able to continue as a useful and successful member of the industrial family.

But many a man has done all of these, and is nevertheless out of a job. All things considered, where does the balance of responsibility lie?

Taking humanity in the mass, we must say at once that in times like these a considerable proportion of this mass must necessarily be thrown out of work. There is no escape until we find some way of readjusting our social economic system more nearly in accordance with our requirements as human beings. In this proportion that are thrown out of employment, there are many whom nothing could save from being separated from the payroll—their whole plants may have gone to the wall, and everybody released regardless of ability or other circumstances.

But when it comes to each individual, it is necessary at least to pause. Each case must be scrutinized before a fair judgment is possible. As long as some people are working, why are not you? As long as some people are getting new jobs after losing the old one, why are not you? Is it a fact that you yourself have done everything you could?

The first burden of proof in any particular case is necessarily on that individual. One of the foundations of our American life is that each individual is relatively free to make of his own nature what he will. Have you taken advantage of all of your opportunities? Have you really developed the talents which were packed away in your personality at the time you were born? Are you doing everything that you can for yourself today?

The combination of a certain amount of inevitable unemployment, and the inevitable responsibility of the individual to show cause why he personally is not among the employed produces a rather cryptic philosophy; but its tenets seem inescapable. We are reminded of the Biblical dictum: "For it must needs be that offenses come, but woe unto him by whom the offense cometh." None of us can, or even wishes to, escape from the individuality which is his, let the corresponding responsibilities be what they may. We are not a nation of quitters.

But in considering the unemployed individual's own responsibility, final judgment must be fair, and even tempered with mercy. Human beings are not yet perfect. And in very many cases, regardless of the man's own ability or efforts, there has been absolutely no escape from unemployment.

The second burden of proof is on society; and here there can be no mercy. Has this man been given a reasonable chance to make of himself personally what he really could? Has society so organized itself that it has laid on him unnecessary burdens? Has it provided for each of its members a proper type of education, of vocational guidance, of training, of opportunities for self-development in and outside of his work? Has it provided him adequately with healthful conditions and safety from disabling accidents? Has it provided him with reasonable opportunity for attaining economic security? Has it burdened him with political extravagance, with graft and with favoritism? Has it made of him a chattel to be used and discarded rather than a partner working for the common welfare? Has it sufficiently shared with him, in shorter hours, the economies and profits of technological advances? Has it fostered or discouraged cupidity and greed? Has it so arranged and planned its total economic system that unemployment catastrophies like the present cannot recur in the same degree?

These are forthright questions. Their import may lay a heavy burden of responsibility at the door of society as a whole, or of particular groups which are primarily responsible in each case. They are truly inescapable reasons for the failure of many an individual.

But we must not blink at the whole truth. Many are still working. The first burden of proof regarding responsibility for his own particular unemployment is still squarely on the individual. If he can clear himself, society must then take the responsibility as its own.

## II. A Plan for Financial Security of Employes

*By* RALPH S. WESTING

**Young & Ottley, Inc., New York**

THERE IS no one among you who would attempt to controvert the statement that it is sound business for a corporation to set up reserves against depreciation of physical property and against major emergencies. The necessity of such reserves has come to be so axiomatic that we never question the practice. Therefore I am prompted to ask the question: What would have been the effect if when we were vigorously climbing out of the brief post-war depression of ten years ago, employers and employes on a large scale had co-operated to establish similar

personal reserves for each individual worker, and those reserves with the earnings and growth that accrued to them had been steadily compounded under capable financial management?

The formulation of a plan that hopes adequately to answer this question during the next ten years has been the culmination of nearly a year of research that I have had the agreeable duty of conducting for my firm, of which the business is the management in a fiduciary capacity of the invested funds of clients such as banks, trust and insurance companies, estates and business corporations.

During 1931 we noticed in our constant conversations with clients and other contacts a steadily increasing infiltration of a subject of which we had little knowledge. These business executives were talking more and more about the financial welfare and security of their employes. So widespread was the interest in this matter, with its multitude of ramifications, that early in 1932 we determined to gather some facts. We are not through by any means, but we have gathered enough facts to draw certain conclusions and from those conclusions to mould a plan which we believe is, to at least a very considerable degree, the answer to the question which I propounded.

Need I say to this particular gathering that our studies thoroughly confirmed the importance of the subject and the existence of an overwhelming interest that has developed in relation to it? The Rev. Jones J. Corrigan recently stated the case clearly over the radio in these words:

> How far Government will go in taking over the control of industry for the common weal will depend on how far industry itself farsightedly incorporates "human planning" into the economic planning now so prominently discussed. Economic planning is vital to the new era, to avoid the over-production and waste of the hit-or-miss policy of the past, but "human planning" must receive far more attention in the new day if industry is to measure up to the new responsibilities set by an aroused public opinion. The present unemployment has started a ground swell that may sweep all before it unless the human responsibilities of industrial relations are speedily recognized and measures taken to meet them. The machine has made the problem acute. A just and rational solution is possible. May it be found without resort to strife, bitterness and industrial warfare!

That statement is amply supported by the facts uncovered by our studies. The American people will never again calmly stand by while we descend from the height of a frenzied, insane, utterly unwarranted boom to the depth of nearly forty per cent of our population without visible means of support and another third working a few hours a week for a wage that just permits existence. Unless we want the Government to take over the responsibility for preventing another such calamity, as governments are now doing on a socialistic basis in nearly every other country in the world, the leaders—the management brains of American industry—must assert their leadership and use their brains to initiate a thoroughly sound and sane "human planning" as we rise out of this morass we are in.

Well-managed companies have built up reserves that are available to tide them through this present situation, but with few exceptions they neglected to see that their workers—the buyers of their products—also built up personal reserves.

Do not misunderstand me; I am not advocating unemployment insurance, for I do not believe there is such a thing, literally speaking. I am advocating nothing more than the good old fashioned practice of my Scotch forefathers—*thrift*. But thrift that is managed, organized and soundly administered through the most natural and logical relationship in existence, that of employer and employe. I am urging nothing more than that the employers of this country shall point the way; make the vehicle available and then provide a part of the fuel necessary to keep the employe on the sound highway of financial independence through personal reserves against the major emergencies that he will meet along the road. These may be death, accident and illness, unemployment and old age. Is there anything radical in that? It is nothing more or less than the inevitable conclusion derived from unprejudiced study of existent facts.

Let us reduce the problem to a few simple fundamentals and proceed with their solution: (1) Such reserves as are set up must be available only for real emergencies; (2) the employer and his employe must co-operate both as to the organization and the independent administration of the reserves and as to the contributions thereto; (3) the savings of the employes must be absolutely protected and must be readily available either as cash or as paid up insurance protection, in the event of termination of employment; (4) the reserves must be so invested as to assure earnings and growth that will build them up adequately, so the contributions to them will not be an undue burden on either employer or employe; (5) the protections afforded must be a minimum basic security, proportioned to the lowest wage-earning class against death, a number of minor recurring emergencies such as illness, accident and death of a dependent, unemployment and old age.

Let us understand that we are attempting to create only *minimum* reserves by co-operative contribution. Our studies led us to believe in the essential soundness of providing practically compulsory reserves for all employes on a scale commensurate with the requirements of the lowest paid group of employes. If higher paid employes wish to build up reserves more in keeping with their normal scale of living, they may take advantage of the facilities provided to create additional personal reserves over and above the standard rate; but the employer does not contribute accordingly. You may note that I just said *personal* reserves. Our studies have led us to believe that the responsibility of the individual is essential to our American scheme of things. We do not believe that at this stage of our social development we can induce the more capable workers to contribute to reserves which may be used for unemployment relief of the least capable workers. By so doing we should be actually paralyzing thrift and encouraging laziness and inefficiency.

Thus we start with the attempt to provide adequate minimum standard protection by setting up individual personal reserves with the aid of the employer. Our first emergency is death. We propose to purchase from the reserves a standard amount of straight life insurance for each employe. Straight life insurance can now be purchased for employes under fifty-six years of age without medical examination. The amount of the policy will vary according to the requirements of various companies. A thousand dollars is a usual amount. We suggest straight life instead of group insurance because the employe would then have an equity that he can take with him, and because he is building a guaranteed reserve for himself in the form of loan value or cash surrender value. Group insurance is nothing but net protection which cannot be transferred if the employe leaves. The difference in premium cost would have to be compounded at 6 per cent per year to equal the equities in a straight life policy. So we consider that the savings of the employe guaranteed by a sound life insurance company are well invested at 6 per cent.

Our second emergency is a group of minor recurring emergencies such as illness, accident, death of a dependent, or any other emergency requiring a comparatively minor sum of money for what may be called a "provident purpose." This type of emergency is met in two ways. Where there exists an Employes' Mutual Benefit Association it is incorporated with the reserve fund, a part of the reserves being set aside for the benefit of the employes faced with such an emergency. Where a mutual benefit association does not exist, it is advisable either to set one up as a part of the reserve fund or else to purchase group

health and accident insurance covering all employes with a minimum standard amount. Other emergencies in this group are met by incorporating into the organization of the reserve fund a simple credit-union structure, from which employes may borrow for "provident purposes," repaying in regular monthly or weekly payments. The well organized and administered credit union has been found to be a great benefit to workers, as well as a very sound investment of employes' savings, earning a safe and substantial return.

Our third emergency is unemployment. Since it is essentially this factor that has caused such widespread interest in the subject as a whole, I may assume that most of you are generally familiar with at least some of the thousands of remedies proposed, as well as some of those which have been tried. One could devote days to the subject without much more than scratching the surface. Suffice it to say that a year of intensive study has convinced us that there are but three alternatives: (1) Unemployment insurance by legislative enactment and government supervision which we reject as socialistic, economically inequitable and entirely contrary to the American conception of individual responsibility; (2) pooled wage reserves, by which we mean wage reserves contributed by all to be drawn on as necessary for the benefit of the least fortunate and the least provident, which we reject as being unacceptable to the American workman and conducive to shiftlessness and inefficiency and improvidence; (3) individual wage reserves, whereby employe and employer contribute to a reserve which sets up individual credits to the account of each employe, which credits may be drawn upon in the event of unemployment. If the individual reserve is exhausted the relationship of the employe to the reserve fund is terminated, unless by action of the Board of Trustees he may receive benefits from a special emergency fund. I believe that anyone who makes a practical study of the problem will reach the conclusion that as long as the American scheme retains its past and present character, the individual reserve remains the only practical method of unemployment relief. Of course, we recognize that the real cure is not relief, but prevention by sound economic planning which will stabilize employment. This desirable goal seems far distant. However, while we are struggling toward it, previously organized and soundly administered reserves will at least provide a cushion of relief.

Our fourth and last emergency is old age, which we all attain if the first emergency does not interfere. I think that you will agree that it is a very sad commentary on our vaunted civilization that of every hundred wage earners alive and well at the age of twenty-five who live to attain the age of sixty-five only 16 per cent are capable of retiring with financial independence. 84 per cent must either continue to work indefinitely or are dependent on the charity of relatives, friends or the state. That is hardly a situation to which we can "point with pride" as our political orators have it.

In this plan we have proposed to restrict withdrawals for any but very real emergencies. We have suggested that minor emergencies be met by borrowing from the reserve, repaying in regular installments, rather than by drawing on the reserves themselves. The purpose of this is to permit these individual reserves to build up, grow and compound so as to provide an adequate retirement fund when retirement age is reached. If this could be generally applied to American business our normal unemployment could be wiped out. This is because in normal times there are more people of over sixty-five years of age at work than there are people unemployed. From another angle consider the economic benefit of being able to retire workers from production with resources sufficient to enable them to continue as consumers.

I shall attempt to give only one or two points on the organization and administration of these reserve funds. Obviously the industrial or commercial unit is the ideal medium. If it is too small, regional or industrial groups of units can be organized at very little additional expense.

Two points should be definitely established at the inception of the organization. The first is that the company itself has no responsibility for the administration or maintenance of the organization, except those that are definitely stated in the fund regulations and which it consents to assume. The second is that, while the plan is designed to enable each employe to meet emergencies, the scope and character of all emergencies cannot be anticipated. Therefore the regulations should not be too rigid. Both of these points may be fully covered by having a properly constituted board of trustees to administer the fund, with elected representatives of the employes constituting at least half of the board. In many cases it has been considered advisable to have the employe representatives outnumber the management representatives, with the proviso, of course, that the board has no power to commit the company to anything over and above the commitments originally agreed to.

It is essential that the employes shall from the beginning understand the purpose of the plan; namely, to accumulate reserves for emergencies and not for casual needs that may arise from day to day. By putting restrictions in the regulations which permit withdrawals only for specific emergencies and only at stated periods, a dual purpose is accomplished—the fund is not depleted for minor needs and accounting is simplified and cost of administration is kept at a minimum.

Accounting practice for this type of fund has been thoroughly worked out, but, like everything else in this proposal, it is left flexible for ready adaptation to the requirements of any particular group. One essential which must be mentioned is that the accounts are so set up that the equity of each employe always reflects the exact earnings to date on each contribution credited to his account. Thus the newly accepted member receives no benefit from previous earnings of the fund.

It is these earnings which constitute one of the fundamental features of this plan. We have often been asked the question, "How is it possible to provide reserves for all these emergencies without impossibly heavy contributions from either employer or employe or both?" There is only one answer. A substantial portion of the fund must be put to work in the best of American industry to participate in the average good earnings and also in the normal growth in value of sound American industry. These earnings and appreciation in value must then be ploughed back into the fund to receive the benefit of the tremendous power of compounding. Before closing I want to answer the question I know is in your minds. You are thinking that I am describing the millenium in saying that such savings can be put to work to earn dividends from industry and to share in the capital growth of industry without sacrificing the essential safety that is an absolute necessity for the savings of workers. For a moment I shall ask you to assume that I am describing a practical ideal—that can be done. Assuming that, I want to ask you a serious question. In view of the new light that is being thrown on the relationship between—not "capital and labor"; I despise that outworn phrase of the nineteenth century economist—but between the triumvirate that must equally share the burden and the profit of a new economic world—men, management and money—and I put money last—in view of the proper relationship of these three does it not appear to you essentially logical and right that a substantial part of the savings of men—the reserves against emergencies—should be a part of the money that is given to management to put to work at a profit? I think it is. Money is given to management to be put to work to earn dividends and to grow. Management combines the equipment that this money purchases with efficient direction of men and their labor so that the money will earn

these dividends and grow. Is there any reason, then, why the millions of individual savings of these men cannot be economically pooled to be given back to management to share in these earnings and this growth that men and management create?

There has been a reason. Money so invested has not been safe, and safety is an essential which is required for the savings of men. But a new science or profession has developed to answer the crying need for a combination of safety and profit. That is the profession of investment management which stands aloof from either speculation or ownership or management interests in any particular concern, and has adopted and rigidly adheres to the highest standards of professional ethics.

Members of the Taylor Society represent the science of management. I have tried to show you how your science of economic planning may include this new science of investment management, to make effective one of the vital factors of human planning, the creation and maintenance of personal reserves for workers. It is a combination that can go a long way toward eliminating some of the serious ills of our modern industrial world. I commend it to your consideration, because unless you who have the responsibility of management take definite steps to incorporate this human planning into your rebuilding program, government is going to do it for you, and frankly I do not like to speculate concerning the result if the legislatures of forty-eight states are allowed to enact their various ideas of the solution of this vital problem.

## III. Social Responsibility

*By* FANNIA M. COHN

**Executive Secretary, Educational Department, International Ladies' Garment Workers' Union**

WE ARE living in a period of much unbearable suffering in spite of overabundance. At such a time it is not easy for one who is daily faced with this distress to confine her remarks within the limit of these papers which I am called upon to discuss. I will therefore consider the general problem of economic security.

Mr. Hull discusses the individual's responsibility for his own unemployment. Even in ordinary times we have had, through the mechanization of industry, increasing millions of workers out of employment who were capable, efficient, and desirous of work. Mr. Hull admits that there are not enough jobs. No comment is necessary that if there are not enough jobs somebody will always be unemployed. Such an argument as Mr. Hull's is especially heartless at the present time. I would rather have expected an industrial engineer, who is acquainted with the increasing unemployment situation, to suggest another remedy for the workers—unemployment insurance and other social legislation.

Very few deny that sociological, or psychological, or (as others term it) seasonal unemployment, has its root in our present planless economic system and the ruthless competition that are the evils of the profit motive. Many add a new result —permanent unemployment.

Our present evils, as the members of the Taylor Society well know, spring not from lack of efficiency to produce, but from the failure to use properly the results of our efficiency. Of course too many people are now misplaced. Many young people starting out in life are not getting the positions for which they are best fitted, because they have no choice in the matter if their existence depends upon their daily wages. The retraining of those displaced by shifting industrial requirements should be a governmental function.

Mr. Westing takes it for granted that it is against the tradition of American workers to accept state social insurance, but since he prepared his paper, the convention of the American Federation of Labor has come out in favor of compulsory unemployment insurance legislation. This action was taken at the recommendation of the A. F. of L. Executive Council, which only last year was still unalterably opposed to unemployment insurance legislation. It had been forced to realize that unemployment insurance cannot be achieved through voluntary action. Indeed, on the basis of the past, we can conclude that if obtaining economic security for workers be left to voluntary effort, as suggested by Mr. Westing, twenty-five years hence, after another depression or even several depressions, we may hear another paper lamenting the fact that employers and workers have not established reserves. Hence the labor movement and so many public spirited people are working for the enactment of compulsory unemployment insurance legislation, and for the extension of old age security laws, health insurance, and mothers' and widows' pensions. Only recently the Wilbur Committee on the Cost of Medical Care has rendered a majority report recommending partial socialization of medicine.

The victims of the present depression—the unemployed—are rapidly changing their attitude toward tradition as long as all it offers them in the midst of plenty is the bread line. The changing public temper was demonstrated in the last election. The President, an ex-President whose name was associated with the wild era of prosperity, and other celebrities of the Republican party, warned the nation that the election of their opponent might mean the destruction of American traditions and social institutions. The answer of the masses cannot be interpreted to mean that they cherished our present institutions.

Assuming that we had had funds accumulated through individual reserves, and invested by management in business in accordance with Mr. Westing's suggestion, what would have happened to these investments during this depression? Are we not aware that the workers' savings were wiped out through bankruptcies? Workers want the government to be the collector, custodian, and distributor of such funds.

If social legislation had existed in the United States for the last ten years, many billions of dollars would have been available for distribution to the unemployed for purchasing power at the beginning of the present depression, and these billions would to a certain degree have kept industry in operation. Social legislation would abolish the bread line (which does not exist even in England), and avoid the spectacle of able-bodied men and women accepting charity in the presence of their children.

Even if it is true, as Mr. Westing maintains, that there is a greatly increased interest of management in the economic conditions of the workers, only thirteen companies have voluntarily established benefit plans for their employes, only 87,000 workers, or less than 1% of all the wage-earners in the country, are covered by benefit plans, and six private company plans have discontinued payment of benefits. Why is it that the most publicized exponent of such plans suspended payment of benefits in June, 1932, when benefits were most needed? Such experience confirms the assertion of those who maintain that assured economic security of workers cannot be achieved without legislative action.

Because of our competitive system an employer or even a group of employers cannot assume the cost of a reserve unless the entire industry and even other industries do likewise. This explains why after sixteen years the unemployment insurance funds established by joint agreement between trade unions and employers cover not even 200,000 workers. Furthermore, the private unemployment insurance benefit plans have been estab-

lished in plants where a regularization of employment already existed.

The impression left by Mr. Westing's argument is that he looks upon the worker as an employe of a particular plant, chained to his job, and not as a person who may be free to change his place of employment; because these private funds tend to keep him in subjection and afraid to combine with his fellow workers lest he lose his position and with it the promises of financial security that tragically enough have no legal standing.

The main principle of insurance, the sharing of the risk, is not recognized by Mr. Westing, who warns against its consequences. Some of us still remember how opponents of workmen's compensation argued along similar lines. But now even the die-hards would never dream of returning to the days when injured workers were not partially compensated. The need for compensating unemployment is even more acute because under our present system every worker is exposed to the injury of unemployment and society as a whole suffers as a result. At present the labor movement and a greater portion of enlightened public opinion demand that compulsory unemployment insurance by industry, with the state administering it, be established immediately. But there is a prevailing opinion that before long this will be found inadequate.

To strengthen this position, may I quote from Professors Berle and Means' "The Modern Corporation and Private Property":

Two hundred corporations in the industrial field in America control nearly fifty per cent of the assets of non-financial corporations in the country. . . . If trends toward concentration continue, by 1950 these two hundred will control about eighty per cent of the assets of our non-financial corporations.

Since capital is constantly merging, the labor problem is increasingly assuming national scope. Workers cannot be protected on a single plant basis. The only practical way to make unemployment insurance solvent is to pool the contributions of all the industries. Stable industries should bear part of the cost for the unstable industries (which are essential to the well-being of organized society). Such a system would place unemployment insurance on a community basis, and distribute the risk more equitably. Would it be possible to carry on our community if only the sick were compelled to provide funds for the support of our hospitals? How do we maintain our free public schools?

The theory that claims that citizens should not be taxed for providing unemployment insurance is a myth. Individuals have contributed hundreds of millions of dollars for the various relief funds, and the most deplorable fact is that many who were financially unable and least responsible for the situation have been compelled to assist by sharing of work and reduction of wages; and this certainly has not helped to bring the country back to normal conditions. Also most of our cities and states have made contributions. Is this not taxation? No one questions that this is a most inefficient and costly method of collection and distribution, besides being humiliating to those who receive the relief.

There will be pointed out the illegality for Congress to enact social legislation without a constitutional amendment. I am for the enactment of such an amendment, but meanwhile Congress may contribute to state unemployment insurance funds on the same basis by which it assists in the construction of good roads. The details of the procedure I should rather leave to our legal talents to arrange.

Mr. Westing emphasizes thrift. Thus the workers are bewildered by two appeals. The industrialists say *spend;* the bankers say *save.* The worker does not know which advice to follow.

It is an established fact that even during the height of prosperity we were suffering from too much saving on the part of the investor and too limited income allowed to the consumer. Many are convinced that this is the chief cause of our present chaos. The only remedy against such a destructive social condition is to redistribute the hoarded wealth and restore mass purchasing power.

The trouble is not caused by technological development, as so many good people try to make us believe, but in the way it is administered. Increased productivity could be made a blessing if all who share in the production of wealth should also share in its distribution. We in the labor movement are for further research that will lead to increased technological development and finally free the workers from much of the drudgery connected with work, provided that society has a control over it so that the benefits of increased productivity and leisure are shared by all.

The urgency of the present situation impelled the A. F. of L. at its recent convention to adopt a program of which one of the main features was the six-hour day and the five-day week. While previously this has been argued as a question of health and culture, now it has become an economic question, because improvements in methodology have been immensely increasing the individual's productivity. We must realize that we are confronted with a most gigantic problem, more serious than the one that confronted the nations after the Great War—the re-employment of millions of jobless. There are many who believe that a very large number of our army of unemployed will never again find employment without a radical change in our economic system.

It is timely here to give a note of warning; that though the unemployed were stunned into inactivity by the suddenness of this economic disaster, they will not submit to permanent unemployment and a life of poverty. There is a growing conviction that redistribution of wealth is essential to relieve the present situation. The means of achieving this is through the shorter work day and week, and by providing the workers with an uninterrupted income and sufficient purchasing power, which could be done by having the state and Federal governments (especially the Federal) tax the higher brackets—taxing income, capital, and inheritance—and spend the revenue for social services.

The present situation cannot be met with personal, individual or company welfare plans, but by compulsory social legislation, of which unemployment insurance is the major demand. Of course we realize that unemployment insurance is only the means to an end, not the ultimate goal. Workers want to produce for the enjoyment of life, for more leisure, for a higher culture. They are convinced that under the present technical development they can enjoy all this, provided human happiness is the first consideration. But we live under a system which creates enforced idleness. Until the right of every man to a livelihood is established, social legislation will be the only protection of the worker.

While it is considered that the Taylor Society has made a great contribution to the efficiency that has led to increased productivity and accumulation of wealth, it is now expected that the Society will recognize its responsibility in assisting to devise an equally efficient means for distribution of that same wealth.

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## Annual Dinner

**Friday, December 8, 1933, 6:45 P. M.**

**Small Ball Room, Hotel Pennsylvania, New York**

# Who is Responsible for Buying Power?

## Importance of the Wage-Price Relationship in an Economy

*By* **GEORGE G. BERGER**
**Industrial Engineer, New York**

*This analysis of buying power responsibility is taken from a more comprehensive treatise on scientific economic controls. It was completed about two years ago as a part of an investigation of general trading conditions affecting the economy of an enterprise. The study is given here because it bears definitely on the present recovery program.*

WITH a constructive objective in mind, we may ask not only who is responsible for buying power, but also what is the extent of the responsibility. If we disregard certain equities, which are obvious later in this article, we may easily dismiss these problems by saying that enterprises must pay wages, either in accordance with specific trade codes or in accordance with the blanket code of NRA. Undeniably this solution promotes employment and increases somewhat the wage fund for consumption demand. On the other hand the codes tend to eliminate competition and bring about rapid price increases or excessive prices (by uneconomic utilization of capacities) which lessens the effectiveness of this wage fund to build up demand and thereby accumulatively restore economic activity to normal. As the wage and price factors draw apart consumption forces price rebates and other adjustments which serve to discourage production since they mean smaller or no profits. In this manner, the economic law of supply and demand rebels at the unfair conditions set up for economic barter.

In the first stage of the NRA program, emphasis was placed entirely on the necessity of building up buying power, and there was no consideration given to the matter of price. Such a program glosses over the share of national income going to capital and land (the last primarily governmental overhead) and enthusiastically believes that wages and salaries will result in sufficient demand to build up the broken-down structure. In the second stage price increases resulted in widespread speculation in securities as well as commodities, tending to force us back more deeply into depression. In this second stage there is some confusion; on one hand, AAA is endeavoring to bring farm prices back to former levels, and on the other hand, NRA is asking producers to endeavor to avoid price increases —at least until the proper demand is brought on by the increased wage fund. The object of this article is not to criticise destructively, but to point out a wage-price relationship which is of paramount importance.

A certain amount of dogmatism is required for constructiveness, especially in the field of economic science. This dogmatism enables me to state, in defiance of several doctrines of economic thought, that all costs are incurred by the employment of men. Conversely, if men were not employed in economic activities for their specialized services to society, there would be no costs of production. When we say that a share of produced wealth rightly goes to capital in return for the use of savings and in return for making work possible in large, efficient organizations, well equipped with tools of production, materials, etc., we mean that certain individuals are receiving a share of the production by their natural rights of ownership of technical facilities they have provided. When we say that a certain portion goes to land, we mean that the landowner—who invests his savings in land property, maintains it, pays taxes, and leases its use—is getting a share for his services. These views do not dispute our major premise that all costs are due to employing men to carry on essential economic activities. They simply show, from the capitalistic viewpoint, that other men besides hired and salaried workers render essential services to society.

Because the various members of the economic society render various specialized services, they earn wages (used in a very broad sense) which sum up to national income. Individual wages are given in return for a specialized service and attest to the right of the individual to secure life requirements furnished by his society. From this viewpoint economic barter aims at distribution for use and not for accumulations of credits which cannot be economically invested in capital goods and therefore represent unused production (called also over-production). By our major premise, national income is automatically generated to pay for the values produced. When excessive portions go to land and capital the natural economic equilibrium is destroyed. Our main problem appears to be to determine what portion should go into the creation of consumption demand and what portion should go into the replacement and increase of capacities for a society growing in both size and standards of living.

The various economic services rendered cannot be easily traced through the complexity of exchanges; this complexity however need not disturb the simple logic of economic barter. For convenient classification in economic science, the various services have been called capital goods and consumption goods and services. Actually there is no clear line of demarcation between the two. Materials and services are produced in a given period and have various terms of duration depending on their use. Their production during the period is tempered by demand. Heat and food are promptly consumed and may be said to have short terms of depreciation; clothing has a somewhat longer period; automobiles are depreciated over a period of from five to ten years; machinery ten years; buildings twenty to fifty years. A year's national income is generated during the process of producing these various direct and indirect items of life requirements. Production of food is planned for daily consumption while building construction (not so easily forecast) is adjusted to general growth.

In our economic society the enterprise pays the wages; therefore it is inserting buying power by contributing to the fund which pays for the goods and services produced not only by it but by all enterprises. This is the same as saying that by rendering essential services to society its members are entitled to subsistence. Arithmetically this right is expressed in the following form:

$$\begin{matrix}\text{Wages paid in}\\ \text{the enterprise}\end{matrix} = \begin{matrix}\text{Number employed}\\ \text{in the enterprise}\end{matrix} \times \begin{matrix}\text{Average subsistence}\\ \text{for each worker}\\ \text{(and dependents)}\end{matrix}$$

The enterprise also is engaged in supplying a portion of this average subsistence for all workers gainfully employed, including its own workers: i.e., it secures its sales income from supplying this portion. This logic may be expressed in the following form:

$$\text{Sales for the enterprise} = \text{The number gainfully employed in all enterprises} \times \frac{\text{Sales for the enterprise}}{\text{The number gainfully employed in all enterprises}}$$

In order to establish the condition of fair income for all enterprises which employ workers and which have shown their ability to supply demanded services, the last term of the first equation becomes per capita national income (representing an average share in the production of all commodities and services). This is substitution which temporarily overlooks the considerations of variable standards of living by class and section, and is made in order roughly to point out the present irresponsibility for buying power when the formulae have been applied. Before combining these two equations in ratio in order to obtain a fair wage-price relationship, it may be well carefully to examine their logic. The second equation on cancellation becomes "sales = sales." The first equation states the fairness of giving the enterprise a share in total production, thereby providing sales income for all enterprises. If this logic cannot be denied, either arithmetically or economically, we may then proceed to secure the economic wage-price relationship in the following form:

$$\frac{\text{Economic wages paid in the enterprise}}{\text{Sales for the enterprise}} = \frac{\text{Number employed in the enterprise}}{\text{The number gainfully employed in all enterprises}} \times \frac{\text{National income}}{\text{Sales for the enterprise}}$$

*If the meaning of this relationship is carefully interpreted, it indicates that the enterprise is responsible for the insertion of buying power in economic relationship to the sales income it secures from the total wage fund created by it and all other enterprises.* Conversely, the enterprise is entitled to a sales income (which bears on price) in proper proportion to the wages it pays. Where this wage-price relationship is not in effect, buying power is either removed or inserted excessively. The enterprise therefore competes not only with other enterprises in its trade, but with other trades. In our more recent economic development such removals of buying power have been the general rule and established the major cause of economic depression. Every dollar which has been removed is represented by so much usable production which not only curtails production but in time demands liquidation in prices often below its cost of production.

The studies presented in the accompanying tables were made about two years ago on the basis of 1929 data. Economic wages were secured with the foregoing formula; the difference between them and actual wages paid represents buying power removed or excessively furnished for the benefit of those economic activities which remove buying power. With these studies and the principles of buying power responsibility according to wage-price relationships in mind, we may proceed to examine the present rehabilitation program. By placing emphasis on employment and wages, it stresses the importance of a partial economic truth—the creation of a wage fund out of which sales demand and income are secured. At the present time it

TABLE I

STUDY OF RESPONSIBILITY FOR BUYING POWER IN THE MANUFACTURES (1929)

($ FIGURES IN MILLIONS OF DOLLARS)

| Group No. | Name | Number of Employes | Sales or Operating Income | Actual Wages | Economic Wages | Gain or Loss of Buying Power | Per Cent of Gain or Loss | Actual Wages as a Percentage of Dollar Sales | Essential Percentage |
|---|---|---|---|---|---|---|---|---|---|
| 1. | Food | 888,011 | $12,023.6 | $ 1,218.7 | $ 1,502.5 | —$ 283.8 | —18.7% | $.101 | $.125 |
| 2. | Textiles and Products | 1,847,669 | 9,243.3 | 2,143.7 | 3,126.3 | — 982.6 | —31.4 | .232 | .333 |
| 3. | Forest Products | 956,289 | 3,591.8 | 1,156.1 | 1,618.0 | — 461.9 | —28.4 | .322 | .455 |
| 4. | Paper Products | 264,402 | 1,892.3 | 381.6 | 447.4 | — 65.8 | —14.7 | .20 | .238 |
| 5. | Printing | 565,767 | 3,170.1 | 1,138.0 | 957.3 | + 180.7 | +18.9 | .357 | .300 |
| 6. | Chemicals | 355,374 | 3,759.4 | 555.7 | 601.3 | — 45.6 | — 7.6 | .147 | .159 |
| 7. | Coal and Petroleum | 188,094 | 3,647.7 | 315.3 | 318.3 | — 3.0 | — 0.9 | .086 | .087 |
| 8. | Rubber | 171,982 | 1,117.5 | 262.7 | 291.0 | — 28.3 | — 9.4 | .232 | .263 |
| 9. | Leather | 351,160 | 1,906.0 | 433.8 | 594.2 | — 160.4 | —27.0 | .227 | .312 |
| 10. | Stone, Glass | 367,912 | 1,561.4 | 540.0 | 622.5 | — 82.5 | —13.2 | .345 | .40 |
| 11. | Iron and Steel | 991,682 | 7,137.9 | 1,691.0 | 1,677.9 | + 13.1 | + 0.8 | .238 | .232 |
| 12. | Non-Ferrous Metals | 366,311 | 3,597.1 | 587.2 | 619.8 | — 32.6 | — 5.3 | .164 | .172 |
| 13. | Machinery | 1,308,617 | 7,043.4 | 2,196.7 | 2,214.2 | — 17.5 | — 0.8 | .312 | .312 |
| 14. | Transportation Machinery | 650,321 | 6,047.2 | 1,130.2 | 1,100.3 | + 29.9 | + 2.7 | .188 | .182 |
| 15. | Railroad Repairs | 430,637 | 1,269.9 | 718.9 | 728.6 | — 9.7 | — 1.3 | .555 | .587 |
| 16. | Miscellaneous | 493,390 | 3,426.3 | 736.8 | 834.8 | — 98.0 | —11.7 | .213 | .244 |
| | TOTALS | 10,196,518 | $70,434.9 | $15,215.9 | $17,253.5 | —$2,037.6 | —11.8% | $.217 | $.244 |

(Economic wages obtained on basis of 84 billion dollars national income; 49,642,589 gainfully employed.)

may be assumed that current national income is being generated at the rate of forty-five billion dollars yearly. Making an allowance for the wage requirements of certain specific codes and the consumption demand due to those who secure large incomes by way of dividends, rents, royalties and interest charges, the blanket code suggests a uniform average wage of about $728 per person employed, making a consumption-demand fund of about 80 per cent of the estimated national income. This amount is sufficient to start the accumulative building-up process in economic activities. It leaves 20 per cent for dividends, interest, rent and royalties—a fund to be used for replacements, new investments, and some consumption demand.

The complete economic truth, necessary for barter and general trading, indicates however the necessity of controlling price in relation to the wages generated, otherwise the increased wage fund for consumption demand tends to lose its economic effectiveness. It must be remembered that our economic system is no longer entirely of the natural "laissez-faire" order because the restrictions against price setting and production allotment have been temporarily placed on the side. There is accordingly a natural tendency towards price increases on one hand, and on the other hand a tendency to keep the wage fund in a condition of *status quo*. Therefore while the process of building up economic activities secures a start with the present codes, continuous rehabilitation is not assured. Since we have embarked on a course of definite control instead of depending on natural recovery in this rehabilitation program, it becomes necessary to think of the means to increase the wage fund as growth takes place, and also to think of keeping the price level in a sound relationship to wages in the several stages of growth. In other words, a thirty-six billion dollar wage fund for consumption activities is sufficient to start economic activities toward producing fifty or sixty billion dollars' output, but wages must be continuously increased to attain the normal output of ninety billion dollars.

Applying the wage-price relationship to this continuous problem of buying power responsibility in the rehabilitation program, two principles, definitely applicable in the codes, are:

1. By the wage-price relationship, the trade must increase the sum total of its wages as its sales increase (a benefit which it owes to the program).

2. By the same relationship, the trade must set prices which will result in proper sales income. (This second principle places the burden of price fixing on the trade; governmental control is then only interested in the sales income and does not tend to become involved in confusing technicalities and undue expense of administration.)

The necessity of applying these principles is in line with our original principles of economic barter. These principles cannot be denied and they cannot be overlooked without serious consequences in any system of national economy, whether it is controlled or natural, normal or in the processes of recovery. The enterprise (collectively the trade) is to be held responsible for the wage fund because it secures its benefits out of this fund. The element of economic barter is within the enterprise itself because it secures life requirements to society.

The National Recovery Administration recognizes the importance of price control more fully today than when it started

TABLE II

STUDY OF RESPONSIBILITY FOR BUYING POWER IN VARIOUS GENERAL ECONOMIC ACTIVITIES (1929)

($ FIGURES IN MILLIONS OF DOLLARS)

| Group | Number of Employes | Sales or Operating Income | Actual Wages and Salaries | Economic Wages | Gain or Loss of Buying Power | Per Cent of Gain or Loss | Actual Wages as a Percentage of Dollar Sales | Essential Percentage for Economic Barter |
|---|---|---|---|---|---|---|---|---|
| Railroads | 1,686,769 | $ 6,358.8 | $ 2,940.9 | $ 2,854.2 | $ + 86.7 | + 3.14% | $.462 | $.448 |
| Farms—General | 10,482,323 | 11,851.0 | 6,243.1 | 17,737.1 | —11,494.0 | —64.6 | .525 | * |
| Manufactures | 10,196,518 | 70,434.9 | 15,215.9 | 17,253.5 | — 2,037.6 | —11.8 | .217 | .244 |
| Wholesalers | 1,605,042 | 69,291.5 | 3,010.1 | 2,715.9 | + 294.2 | +10.8 | .0435 | .0392 |
| Retail Stores | 3,833,581 | 49,114.7 | 5,189.7 | 6,486.8 | — 1,297.1 | —20.0 | .105 | .132 |
| Forest Products | 460,482 | 1,314.8 | 437.8 | 779.2 | — 341.3 | —42.5 | .332 | .591 |
| Mineral Products | 1,147,770 | 5,887.0 | 1,460.0 | 1,942.1 | — 482.1 | —24.8 | .248 | .33 |
| Mines, Quarries | 788,357 | 2,280.4 | 1,066.6 | 1,334.0 | — 267.4 | —20.0 | .466 | .585 |
| Blast Furnaces and Steel Mills | 419,534 | 4,137.2 | 731.0 | 709.9 | + 21.1 | + 2.98 | .177 | .172 |
| Hotels | 291,259 | 962.8 | 257.0 | 492.8 | — 235.8 | —47.5 | .267 | .511 |
| Construction | 828,772 | 6,250.3 | 1,467.5 | 1,402.4 | + 65.2 | + 4.65 | .235 | .224 |
| Textile Mill Products | 1,096,163 | 5,043.2 | 1,053.0 | 2,024.0 | — 971.1 | —48.0 | .209 | .402 |

*Sales do not cover economic wages.

(While formula indicates that the worker should receive a given portion of national production, the above figures show that due to varying conditions of values added by manufacture, technical efficiency, and capital turnover, each activity has its own wage-price relationship based on total wages and sales.)

on its program. The recognition is embodied in a board which studies retail and wholesale prices, although this board does not have in mind the wage-price relationship. It expects to relate the two considerations by statistical indexes of employment, production level, and price levels of so-called "normal" years in which prosperity was observed. Probably at the time of its formation the NRA had no idea that its program would lead it to burdensome, voluminous investigations of price. At the present time these investigations appear inevitable and point to a more complete socialization program than was originally intended. Individualism is about to object to the use of the "big stick" on the grounds of constitutionality in cases where its interests are at variance with the complete program. All parties, however, are anxious to avoid conflict in order to avoid the arousing of public opinion and legal suits which might weaken the entire program. The wage-price relationship is the reasonable basis for avoiding this conflict, and at the same time the essential principle in our rehabilitation.

If the basic soundness of the wage-price relationship cannot be denied, then it is apparent that the enterprise will no longer be allowed to secure undue benefits from what were loosely termed "good business conditions." It is evident that we are entering a stage of broader Scientific Management in which "good business conditions" are planned on the basis of making the enterprise contribute toward the wage fund and set prices which leave adequate sales income for other economic activities.

To apply this basic relationship in our economic life is not an easy task. After many years of competition, prices were extremely deranged—in several cases too low to provide a living income for large groups. This condition has important effects on costs of production and employment. In the too prosperous industries, price is often based on "what the market will bear" or a policy of expediency rather than on costs of producing. The overhead costs, especially, reveal variations which influence prices in the various sections of the nation. Costs of local government vary considerably, affecting rentals and other costs in which these rentals are an important item. Power charges also vary considerably; the same condition of variability is true for transportation costs. Despite the magnitude of the task, the reconstruction work of bringing about order in this confused state must be started and carried on in evolutionary stages. The wage-price relationship holds out the promise of a stable economic equilibrium when it is applied to all economic activities.

The necessity of applying the principle of this relationship in the NIRA program of rehabilitation is obvious. While such an application would necessarily be crude in the light of the required evolution, still it would furnish a marked improvement in the control technique of the NRA. So far the official program has endeavored to establish quick, overall controls in the form of codes, permitting the trades to set their own prices. As a result of this policy, certain basic industries have taken the cream of the wage fund, leaving other industries, also operating under codes and price agreements, with a poor sales income. The mechanism and required organization for remedying this economic injustice, or unjust economics, cannot be described here. The wage-price relationship must be applied, but with our economic philosophy in mind. We have not as yet reached the stage in our evolution where the enterprise belongs to the state and is therefore subject to its arbitrary dictation. We simply see that *it must be made to contribute its proper share to the wage fund and not allowed to take more than its share of national income.* This is logic which the enterprise itself recognizes. We know that the operating enterprise has survived competition, thereby proving that it is rendering acceptable services for which society is willing to pay the prices set up by the enterprise. These prices, conditioned by sales volume, sum up to the sales income which covers raw materials, overhead, and

TABLE III

STUDY OF BUYING POWER RESPONSIBILITY BY DIVISIONS
(Wholesale Trade Distributors 1929)

($ FIGURES IN MILLIONS OF DOLLARS)

| Division | Number of Employes | Sales or Operating Income | Actual Wages | Economic Wages | Gain or Loss of Buying Power | Per Cent of Gain or Loss | Actual Wages as a Percentage of Dollar Sales | Economic Percentage |
|---|---|---|---|---|---|---|---|---|
| New England States | 111,164 | $ 4,195.3 | $ 206.8 | $ 188.1 | $ + 18.7 | + 9.93% | $.049 | $.045 |
| Middle Atlantic | 432,307 | 23,390.8 | 969.5 | 731.5 | + 238.0 | +32.1 | .042 | .031 |
| East North Central | 353,398 | 14,028.4 | 687.6 | 597.0 | + 89.6 | +15.0 | .049 | .043 |
| West North Central | 196,508 | 8,709.1 | 331.1 | 333.2 | — 2.1 | — .63 | .038 | .0382 |
| South Atlantic | 140,227 | 4,657.7 | 200.1 | 237.3 | — 37.2 | —15.65 | .043 | .051 |
| East South Central | 64,502 | 2,550.8 | 95.4 | 109.1 | — 13.8 | —12.6 | .037 | .043 |
| West South Central | 104,153 | 4,787.2 | 168.7 | 176.2 | — 7.5 | — 4.25 | .035 | .037 |
| Mountain States | 34,680 | 1,198.9 | 55.7 | 58.7 | — 3.0 | — 5.15 | .047 | .049 |
| Pacific States | 168,103 | 5,773.3 | 295.2 | 284.4 | + 10.8 | + 3.78 | .051 | .049 |
| TOTALS | 1,605,042 | $69,291.5 | $ 3,010.1 | $2,715.9 | $ + 294.2 | +10.8% | $.0435 | $.394 |

labor costs. *When the income is not sufficient to secure a fair subsistence for the personnel of the enterprise, the remedy does not lie in forcing the issue but in investigating the wage-price relationships of the enterprise and its associated enterprises. This line of investigation would show who are really responsible for the destructive prices which hold up the creation of the wage fund and ruin the meaning of wages.*

The tables of buying power responsibility cover economic activities operating under an extreme variety of cost conditions; i.e., with contrastive portions of the sales dollars being paid to the accounts of wages and salaries, raw materials, overhead and capital. These operating conditions are the resulting effects of an uneven development in our economic evolution. On the basis of its own evolution, an industry may point out that its increased productivity per man has lowered its generated wage fund but that it has increased the portion of its sales dollar which pays for raw materials, thereby aiding the generation of the wage fund elsewhere. It is undoubtedly true that industries create a demand for raw materials and thereby create employment in the raw materials activities. However, the responsibility of generating adequate buying power for its own personnel is not transferable by the enterprise. Each enterprise must face its own responsibilities, by the wage-price relationship, if it expects good trading conditions (produced values balanced by an adequate wage fund). *The creation of employment elsewhere cannot make up for any loss of buying power within the enterprise itself,* for all any enterprise can do is to obey its own wage-price relationship. There is a resulting total loss of consumption demand which affects all economic activities, a condition shown in the following comparison:

| | | | | |
|---|---|---|---|---|
| Manufactures | 11.8% | removed | buying | power |
| Farms, general | 64.6% | " | " | " |
| Forest products | 42.5% | " | " | " |
| Mineral products | 24.8% | " | " | " |

TABLE IV

STUDY OF BUYING POWER RESPONSIBILITY IN CITIES

(Manufactures 1929)

($ FIGURES IN MILLIONS OF DOLLARS)

| City | Number of Employes | Sales or Operating Income | Actual Wages | Economic Wages | Gain or Loss of Buying Power | Per Cent of Gain or Loss | Cost of Living Index |
|---|---|---|---|---|---|---|---|
| Birmingham, Ala. | 17,893 | $ 133.4 | $ 21.1 | $ 30.4 | —$ 9.4 | —30.7% | 111.8 |
| Boston, Mass. | 75,907 | 603.7 | 105.8 | 128.4 | — 22.6 | —17.6 | 122.0 |
| Cincinnati, Ohio | 63,986 | 497.6 | 85.4 | 108.3 | — 22.8 | —21.0 | 123.1 |
| Chicago, Ill. | 405,399 | 3,915.1 | 626.5 | 686.0 | — 59.5 | — 8.69 | 126.0 |
| Detroit, Mich. | 219,551 | 2,014.2 | 386.7 | 371.5 | + 15.2 | + 4.08 | 128.8 |
| Jersey City, N. J. | 25,822 | 312.0 | 38.0 | 43.7 | — 5.7 | —13.05 | ..... |
| Miami, Fla. | 1,905 | 12.4 | 2.6 | 3.2 | — .6 | —18.9 | ..... |
| New York, N. Y. | 579,005 | 5,984.3 | 912.3 | 979.7 | — 67.5 | — 6.9 | 128.5 |
| Philadelphia, Pa. | 246,908 | 2,003.8 | 338.9 | 417.8 | — 78.9 | —18.9 | 127.0 |
| Portland, Oregon | 21,380 | 169.8 | 28.5 | 36.2 | — 7.7 | —21.3 | 110.0 |
| St. Louis, Mo. | 109,010 | 1,022.7 | 134.9 | 184.5 | — 49.6 | —26.9 | 121.7 |
| San Francisco, Calif. | 45,482 | 483.7 | 67.9 | 77.0 | — 9.0 | —11.75 | 116.6 |
| Washington, D. C. | 9,572 | 89.0 | 15.5 | 16.2 | — .7 | — 4.22 | 115.4 |

(Cost of living index indicates the necessity of relating the economy of the enterprise to the local economy. This principle is recognized in the blanket codes, wage standards which have been set by populations of cities and localities.)

**Mr. Fred Henderson of Norwich, England, author of "The Economic Consequences of Power Production" and "Money Power and Human Life," will be guest of honor and speaker at the Annual Dinner, Friday evening, December 8. See the back cover for program of the meeting.**

## Reviews

BUSINESS UNDER THE RECOVERY ACT. By Lawrence Valenstein and E. B. Weiss, McGraw-Hill Book Company, Inc., New York, 1933, pages xiv, 314. ($2.50)

The text portion of this timely discussion of business in its relations to the recovery act falls into three principal sections. The first is a discussion of business as it existed at the time the recovery act was passed and the significance of the recovery act as an expression of the revised attitude of the government toward business operations.

In the five chapters in this first portion of the book there is an implied recognition of the fact that there are three parties at interest in the activities represented by the Recovery Act. The first, and fundamentally the most important, consists of the people of the United States whose daily processes of living constitute the reason for the existence of business. The second is composed of the producers and distributors of merchandise who undertake to supply the needs of the people, and the third is the government (which in former times has been confused in many instances as being identical with the people.) These authors do not definitely draw this distinction, but when it is drawn, it helps to clarify many of the points which they bring out as to the state of affairs both in business and government largely responsible for the deadlock which this nominally temporary act is designed to break.

The second section of the book is made up of five chapters which discuss in turn merchandising, selling, advertising, wholesaling and retailing under the new act. In these matters the guess of these authors is as good as any. Price competition has been restricted, for a time; and, when all the returns are in, that is likely to be the net return except shorter hours, higher minimum wages and the correction of other labor abuses. The authors, however, point out some other possibilities.

The third section is made up of three collateral discussions on association advertising, cartels in Germany and industrial bootlegging, respectively.

One of the valuable features of the book is the set of ten appendixes which constitute a useful documentary handbook on the National Industrial Recovery Act and its history through the adoption of the first industry code submitted under it by the Cotton Textile industry.—*By* PAUL T. CHERINGTON, Consultant on Distribution, New York.

A CALL TO THE TEACHERS OF THE NATION. By The Committee of the Progressive Education Association on Social and Economic Problems, The John Day Company, New York, 1933, pages 31. ($.25)

This forward-looking pamphlet reviews the evils of our present educational system and advises that teachers ". . . will have to restate their philosophy of education, reorganize the procedures of the school, and redefine their own position in society." An excellent bibliography on social, economic and political problems is included.

INDUSTRIAL MANAGEMENT IN THIS MACHINE AGE. By Francis A. Westbrook, Thomas Y. Crowell, New York, 1932, pages xvi, 407. ($3.50)

This is a practical, descriptive treatment of important aspects of industrial management, based largely on a survey of current practices. The book emphasizes the place of research in all phases of management.—*By* JOHN J. HADER, Rockaway, N. J.

HOW TO BUDGET FOR PROFIT. By Floyd H. Rowland, Harper & Brothers, New York, 1933, pages xvi, 297. ($4.00)

Mr. Rowland's book assumes a close alliance between budgeting and cost accounting and recommends that budget allowances be based on Standard Cost Accounting standards. It covers a discussion of the various aspects of budgeting, as they are presumed to develop, on this assumption.

A NEW DEAL. By Stuart Chase, The Macmillan Company, New York, 1932, pages 257.

This book pleads for a progressive attitude concerning economic control on the part of two groups; first, the conservatives, exhorting them to pull their thoughts out of the grooves in which they have been caught, and second, the liberals, urging them to bestir themselves more energetically to force and direct change.

As in much of his previous writing, Chase starts by vividly exposing the absurdities and wastes of our present system—for those who still need such a demonstration. After summarizing effectively the departures from laissez-faire which make the doctrine an antiquated principle of government, he outlines a program embodying the liberal ideas of the day, such as government ownership of certain industries, reduction of tariffs, control of foreign investments, managed money, redistribution of income, unemployment insurance, public-works programs, economic planning, national and international controls and other desirable measures.

Here one familiar with the field cannot restrain the feeling that it is a bit too easy. Mr. Chase's failure to meet the "technicalities," i.e., the crucial social and human difficulties which a more rational system raises, enables him to devote himself to a popularization of the higher things of life. He writes, "Your author fancies himself something of a wayfaring economist," but also asserts that he is the world's worst politician. There is really, however, no such thing as an economic program unrelated to social and individual psychology. If human beings and human society made progress merely by seeing the truth and thus becoming free, a purely rational approach to critical problems would have greater weight than realistic thinking permits. But to the extent that enlightened attitudes are an important force in new patterns of living, Mr. Chase's lively and intelligent analysis should do a lot to win over people to a new way of looking at social needs, and to inculcate some important ideas of economic reconstruction.—*By* HERMAN FELDMAN, Professor of Industrial Relations, The Amos Tuck School of Administration and Finance, Dartmouth College, Hanover, N. H.

ETHICS AND MODERN BUSINESS. By Henry S. Dennison, Houghton Mifflin Company, Boston and New York, 1932, pages 68. ($1.00)

Henry Dennison in this presentation at the University of California on the Weinstock Foundation gives tersely, clearly and in a noble spirit the bearings of ethics on modern business. He realizes at the outset that the Golden Rule and the second great Commandment give but a basic aspiration and that we are "practically forced to look within." He starts from "our ethical ideal as progress toward the fullest use and growth of each man's powers in the service of his fellows, and toward the enjoyment of such pleasures as do themselves contribute to the refreshment or enhancement of such powers," and emphasizes "by this definition that no member of the species *homo sapiens* as it has so far evolved can expect to find his full satisfactions or real happiness unless he gives some adequate expression to this solidly founded biological instinct to devote some appropriate parts of his life to the service of his fellows."

Mr. Dennison warns that "In choosing his course in the middle ground of doubtful action, where there are no sharp contrasts," the business man "must realize that he has a deeply inherited ability to 'kid' himself into believing that whatever he finally decides to do is right," and that "The first and great commandment, then, for all who care to make sincere efforts to live up to whatever codes of ethics they may adopt should be, 'Don't fool yourself,' or, rather, since unconsciously and often inevitably you will fool yourself, 'Unfool yourself systematically, persistently, mercilessly.' "

In the new Encyclopaedia of the Social Sciences the word "commercialism" carries a certain condemnatory tone. It states that the best antidote to commercialism is public spirit or a governing conception of one's action as valuable mainly because of its effect upon the community. Dennison goes on to urge that the codes of modern business be taken more seriously. He considers them the first attempts of a powerful social group to gain self-respect and the respect of others. Progress will be made if they can be given a more positive tone.

"Codes presuppose and eventually may have some influence in cultivating an ability to plan, to look into the future, and guide the present response to immediate impulse in the light of decisions which are made for the future. They assume that man's actions are to be motivated by the wants and desires of his future development, as well as the wants and desires for his present satisfactions."

Coming to grips with the practical problems of today Mr. Dennison reviews in turn the social relationships of a business organization with its stockholders, its employes, its customers, its competitors, and the ethical responsibilities of its directors and executives, with a completeness and an authority which all who are familiar with Henry Dennison's life-long work will appreciate. Backed by such a record of practice and accomplishment this little book can well be taken as a real guide in meeting problems which every clean-cut business is facing day by day and year by year.

Mr. Dennison suggests the four criteria which characterize professional activity as guides to business management in its efforts to achieve higher ethical standards. These criteria are the employment of expert intelligence; the use of the methods of science in research and experience, with the results made public; adherence in letter and spirit to a written or unwritten code and the desire to serve mankind rather than one's self. Until these professional criteria are met business will not be on the way toward a solution of its ethical problems. Everyone in business can help to achieve these ends by refusing to believe them impossible.

"Our determination to fight may be steeled by a need which is nothing less than the need of preserving our whole civilization—of avoiding the utter chaos of its downfall. We can, and should, admit all the difficulties in the way; any mere sentimental idealism is more likely to push us back than on; but we need never admit any final defeat. It is better sportsmanship and a better life to go down fighting for a cause which may lose than to go slacker because we can't be absolutely certain we are going to win."—*By* DANIEL MOORE BATES, President, Bates Incorporated, Philadelphia.

UNEMPLOYMENT INSURANCE IN BELGIUM. By Constance Kiehel, Industrial Relations Counselors, Inc., New York, 1932, pages 509. ($3.50)

UNEMPLOYMENT INSURANCE IN SWITZERLAND. By T. G. Spates and G. S. Rabinovitch, Industrial Relations Counselors, Inc., New York, 1931, pages 276. ($3.00)

These two books on unemployment insurance describe the working of a system of governmental subsidies to voluntary funds in one country and to both voluntary and compulsory systems in the other.

Everyone even remotely acquainted with the history and progress of unemployment insurance has heard of the Ghent system established in the Belgian city of that name in 1901. Not so many are aware of the fact that a plan not very dissimilar went into effect in Berne in Switzerland eight years before the Ghent plan was adopted. And practically no one has realized that in Basle there was a compulsory unemployment insurance scheme in operation for a few years, more than a hundred years ago. At any rate "unemployment insurance" is what the authors call it, although it was merely a scheme for taking 2 per cent of the wage earners' pay for a fund from which benefits were to be paid at the discretion of the administrators. It would seem to have been compulsory saving rather than insurance.

The book, *Unemployment Insurance in Switzerland*, gives an account of the development of a national system through the medium of Federal subsidies. There is an interesting variety in the Swiss system. The Federal Government has no power to establish compulsory insurance so it both encourages the setting up of plans and secures the recognition of standards approved by the Government, by methods that have been found effective in this country in the promotion of maternity care and vocational education. Nine of the twenty-five cantons have compulsory plans in force. Fourteen subsidize voluntary plans and eight of the latter have authorized municipalities to set up compulsory plans with the result that over half of the insured population are subject to compulsory insurance.

Federal subsidies go to three types of insurance funds: public funds which insure 20 per cent of the insured population, joint funds, contributed to by both employers and workers, which cover 21 per cent, and trade union funds which take care of the remaining 59 per cent. Contributions by employers are optional in most of the funds. The Government encourages joint and public funds by making a larger contribution to them than to the trade-union funds. Altogether, the Government contributes 58 per cent of the income of the funds.

The Swiss plan is interesting and suggestive, even if it is a little difficult to entertain the author's idea that it has special significance for the United States because that country of 3,800,000 population has a government that is, in some respects, like our own.

The Belgian system is based on voluntary action. Beginning with the well known Ghent plan in 1901, there has been, especially since the war, a steady advance both of the insurance system itself and of government control. In 1930, 37 per cent of all industrial workers and 80 per cent of all members of unions were insured.

The basis of the insurance plan is the voluntary society—the trade unions. After 1920 a national system came into being through the requirement of the acceptance of standards laid down by the Government as a condition of the receipt of subsidies. Governmental subsidies are of two kinds. There is a direct subsidy to the societies which amounts to two-thirds of the contributions by members. In addition, there is a National Emergency Fund which pays benefits under certain restrictions to members of societies who have exhausted their rights to benefit, to members of societies which have become insolvent and to new members who have not yet established a right to regular benefit. The fund also is drawn upon for allowances to dependents of members in receipt of regular benefits. The subsidies are distributed by communal insurance societies which are responsible for the maintenance of standards.

The National Emergency Fund is interesting as an attempt to make special provision for relief during prolonged unemployment when the insurance funds are likely to be inadequate. "Its successful operation since 1920," says Miss Kiehel, "is an answer to the assertion often made in America that separate provision for different unemployment risks is impracticable."

A further distinctive feature of the Belgian system appears in the regulations respecting strikes. Arbitration is encouraged by the payment of benefits where the strikers are willing and the employer is unwilling to accept adjudication of the dispute by the duly constituted agencies.—*By* JOHN A. FITCH, The New York School of Social Work, New York.

THE PROGRAM FOR THE WORLD ECONOMIC CONFERENCE. The Experts' Agenda and Other Documents, with an Introduction by James W. Angell, Professor of Economics, Columbia University. By World Peace Foundation, Boston, 1933, pages v, 93. ($1.00)

The timely interest of this booklet, which is a comprehensive compendium of the work preparatory to the World Economic Conference, hardly requires discussion. The introduction, contributed by Professor Angell, gives, to some extent, a general background of our economic problems and describes the events leading up to the World Conference. When we consider, however, that the world has been moving rapidly toward the extreme policies of isolation and nationalism while all the economic conferences have been preaching moderation and economic comity, it is difficult to agree with Mr. Angell's statement that "The Final Report of this Conference (Economic Conference at Geneva) enunciated conclusions which have since had a substantial influence on practical policy."

The Draft Annotated Agenda of the Monetary and Economic Conference submitted by the Preparatory Commission of Experts admirably states the problems facing the Conference, offers some suggestions for their solution, and in some cases recommends a course of procedure to be followed prior to the general restoration of the gold standard, etc.

Although it may be, as Mr. Angell said, ". . . extraordinary that the Preparatory Commission . . . was able to reach clear agreement on fundamental principles," the fact that, since the document was submitted to the various governments, they have made no efforts to follow the recommendations contained therein, but have in fact acted in the opposite direction, leads us to regard the document as an interesting statement of principles of academic interest, but of little practical value. Might it be that the people of the world prefer the goal of a planned domestic economy and, to as great an extent as possible, economic self-sufficiency to international economic co-operation requiring the partial sacrifice of national autonomy? Be that as it may, it is obvious that in the present political conjuncture the Economic Conference lacks the sincerity without which such momentous problems cannot be successfully tackled.

The National Industrial Recovery Act in the United States has opened up economic opportunities of increased co-operation within our own country with a view to keeping a balanced condition between production and consumption. One of the major criticisms of my pamphlet "Rationalization of Business through Self-Government, Co-ordination and Active Regulation by Trade Associations, and the Creation of a Public Welfare and Improvement Industry," published in May, 1931, which now finds itself to such a large extent incorporated in the Industrial Recovery Act, has been that international co-operation as well as domestic co-operation along the lines suggested must be secured before such plans could be carried out. Although aware of the advantages of economic co-operation, it is my contention that our own house must be put in order before we can look towards international agreements. Other nations could then use our patterns as models for emulation. By putting our own house in order I mean primarily re-employment and elimination of price disparities. Those two things will stimulate confidence and make possible the gradual up-building of a new economic order based on the blending of principles of commonwealth and individualism into what I called, in my earlier writings, co-operative and co-ordinated individualism.

There is no other way of solving the international currency situation except by the plain method of anchoring the currencies to something definite, and for the time being no definite anchorage can be had except gold and free conversion. But this cannot be attained by merely passing resolutions, but by bringing into being a number of rehabilitative economic measures which put people back to work at fair remunerations for all classes of workers.

Neither can we legislate measures to lift the price level. This applies to the intention to reduce the gold coverage by 25 per cent. The reason 40 per cent coverage has worked is because it has been supported by confidence, and unless such measures are being evolved as will stimulate confidence the reduction in coverage will not be effective. There will be no actual conversion of currency. Bimetalism or semi-bimetalism, the devaluation of the gold standard and similar things do not augur well for any successful solution of the problem.

In my opinion resolutions passed by international economic conferences can become effective only if there is:

1. An international economic committee *in permanent session*, such as I advocated in an article first appearing in the Herald Tribune in February, 1932, and later in the Kolnische Zeitung, not to pass resolutions, but to deal with international economic problems as they arise and to provide co-operative means of enforcement of its decisions.
2. An international lending agency.
3. A strong international policing power to support the decisions of the League of Nations.

It is doubtful if the nations are now in the mood to forego their national autonomy to the extent necessary to carry out the above prerequisites to a real solution of international economic problems.

The conditions we are facing at present clearly indicate that we cannot expect much in the nature of international co-operation. We have centered our attention on the problem of putting our domestic house in order in the hope that other nations may follow us. Sooner or later, however, international co-operative agreements must be made if we are to avoid extremes of tariff wars and immigration of capital, not because it helps the world's productive facilities, but because of fear and uncertainty. Perhaps later, when our own trade associations, in conjunction with the government, have fulfilled their tasks of rationalizing our economic activities both as to volume and costs, they will have to work out international agreements with international trade associations. Rehabilitation of international economy must start somewhere. We have started on the national plan, which apparently is the only feasible one. Although it would be better if we had a sounder international basis to work on, this unfortunately does not exist. Nationalism in one form or another is still in the ascendancy.

In the United States particularly we are faced with the problem of high distribution and overhead costs, which can only be remedied by continuous operation of our industrial facilities and by a distribution system which will eliminate duplications and wastes. The problem is more economic than financial, and more social than economic. We are facing the fifth winter of depression which may not be as hard as last year, but quite as hard for those who are still out of work. Any means which will increase production, absorbing a large number of unemployed, and providing the wherewithal for the government to use in caring for the remaining unfortunates, may be justified. I believe, however, that such measures as will be taken will not necessarily do away with private incentive, initiative, and rewards, but will preserve the essentials of our present co-operative commonwealth, even though the new economic order may eventually evolve in a much more radical form than it is at present. It is possible that those who are in a position to do so will have to bear even heavier burdens than in the past, but such sacrifices should be viewed not only from the point of individual loss, but what that loss might have otherwise been, and also of the gain to the commonwealth.—*By* PAUL GOURRICH, Economist, New York.

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